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STATE OF MONTANA

WATER RESOURCES BOARD

REPORT ON EXAMINATION

Fiscal Year Ended June 30, 1970

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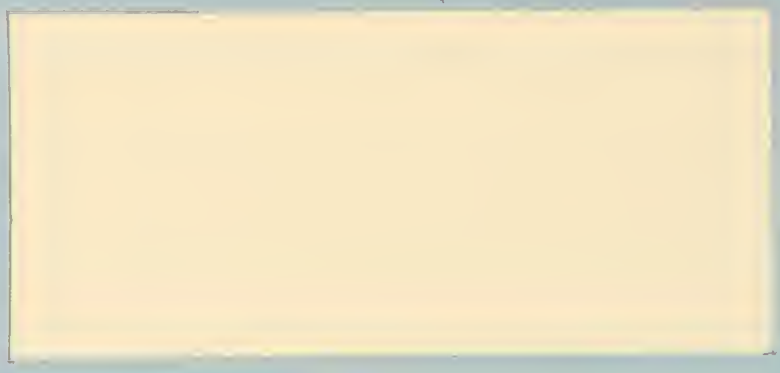

STATE OF MONTANA

WATER RESOURCES BOARD

REPORT ON EXAMINATION

Fiscal Year Ended June 30, 1970

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Montana Water Resources Board

Ex Officio Members:

Hon. Forrest H. Anderson, Governor, Chairman of the Board

Douglas G. Smith, Director

Appointive Members:

Wilbur (Pete) White	Two Dot	1973
Joseph B. Reber	Helena	1973
Homer C. Bailey	Corvallis	1975
Everett Redeen	Forsyth	1975
Riley O. Ostby	Wolf Point	1977

Administration

Douglas G. Smith, Director

Robert R. Jensen, Administrative Director

Ronald J. Guse, Water Resources Director

John E. Accord, Planning Director

Orrin Ferris, Engineering Director

SUMMARY OF RECOMMENDATIONS

Major Recommendations	Page
Reallocate the cost of acquiring the revenue bonds in 1951 on the basis of debt outstanding at that time and adjust the project cost records accordingly.	23
Record non-project costs, such as operation and maintenance expenses, in accounts which are separate from project cost accounts.	23
Analyze each active project to identify the measures necessary to increase project revenue.	29
Implement measures to increase project revenue, including measures which will:	
a. Develop new users of project water.	29
b. Insure that users of project water pay for the water which they receive.	29
Formulate effective standard procedures to be followed in determining the financial feasibility of contemplated projects in accordance with Section 89-105, R.C.M. 1947.	29
Reevaluate each of the seven operable projects which are presently classified as inactive to determine whether:	
1. Some users are deriving benefits from the project without remuneration.	32
2. Project benefits could be increased by restoring the project to full operating capability.	32
3. Restoration of the project is warranted in terms of costs and benefits.	32
Formulate a critique of each project under the board's jurisdiction.	41
Resolve the status of each project as dictated by each critique by either abandoning or repairing the various projects.	41
Establish operation and maintenance charges which are sufficient to:	
a. Reimburse the state for past recoverable expenditures.	41
b. Finance future operation and maintenance.	41
c. Accumulate a reserve for contingencies.	41
Take necessary action to determine that project water delivered to users is accurately measured and that measurements are compared with payments made by water users.	43
Establish repayment agreements on the basis of total actual costs incurred by the board.	46

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Seek legislation to delete the statutes relating to the board's Earmarked Revenue Fund account, deposit to the General Fund project revenues and other revenues generated from the expenditure of general fund moneys, and finance board operations from the General Fund. 55

Retain in the state treasury state moneys to be used for repairing or renovating board projects, request contract bids and awards through established procedures, and process claims for payment through established state procedures. 65

The state controller consult with the attorney general to establish the intent of Section 82-1135, R.C.M. 1947, and prescribe reasonable fee limitations for future cost-reimbursable contracts entered into by state agencies. 69

Other Recommendations

Obtain general guidelines and criteria from the state controller for revising the content and terminology of the chart of accounts. 6

Eliminate general ledger accounts that are duplicative of subsidiary accounts and establish control accounts in their place. 6

Review and eliminate other general ledger accounts that are no longer needed. 6

Consult with the state controller to insure that the accounting record needs of the board are properly considered in the formation of the statewide accounting system. 8

Establish and maintain cash accounts for the board's accounts in the Earmarked Revenue and Federal and Private Revenue Funds. 10

Initiate the adjustments necessary to bring board records and the state controller's records into agreement. 10

Reconcile board account balances monthly to the accounts maintained by the state controller. 10

Place a restrictive endorsement on all incoming checks immediately upon receipt. 12

SUMMARY OF RECOMMENDATIONS (Continued)

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Segregate the duties of handling receipts and performing bank reconciliations.	12
Reconcile receipts with the deposits in the state treasury on a monthly basis.	12
Limit access to the fire vault and key and designate personnel responsible for controlling this access.	12
Deposit all receipts intact in the state treasury on a timely basis.	13
Close trustee bank accounts and deposit the money in the General Fund.	14
Deposit all future revenues from the 17 bond projects directly in the General Fund.	14
Establish the necessary general and subsidiary ledger accounts to record the activity of the contingent revolving account.	16
Assign responsibility for issuing checks from the contingent revolving account to someone not responsible for the accounting function.	16
Reconcile the contingent revolving account monthly.	16
Provide for adequate documentation supporting payments from the contingent revolving account.	16
Establish a record of travel advances and periodically review the record to assure collection of travel advances which are outstanding after travel assignments are completed.	16
Consult with the State Department of Administration as to the feasibility of converting the accounts receivable billing procedures to automatic data processing.	44
Establish appropriate overhead or indirect cost rates to be applied against future water user contracts and repayment agreements.	46
Consult with the state controller as to the procedures necessary to write off uncollectible amounts.	48
Obtain "agreements to contract" from water user associations for amounts advanced at the time of making each advance.	50

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Make final advances only after a repayment agreement has been executed.	50
Record repayment agreements in the accounting records as of the date of their execution.	50
Prepare written instructions describing the procedures to be followed for the collection of delinquent accounts.	51
Consider charging interest on delinquent accounts.	51
Cancel outstanding water revenue bonds and coupons presently owned by the state to eliminate unnecessary administrative and recording procedures.	52
Deposit all miscellaneous income received from the 17 bond projects as revenue to the General Fund.	53
Institute procedures to assure that expenditures are charged to the correct appropriation and to limit expenditures for a certain purpose to the amounts appropriated by the legislature.	58
Request the issuance of purchase orders to encumber appropriations only when a valid obligation exists between the board and the entity providing the goods or services.	59
The state controller consider requiring agencies to submit copies of signed contracts before fulfilling agency requests to issue purchase orders for goods or services not contracted for directly by the state purchasing division.	59
Liquidate remaining balance of purchase order for the Tongue River project.	60
Establish procedures to immediately identify and liquidate unused encumbered balances.	60
Collect amount paid in error from the water user association.	60
Establish object code classifications in conformance with the state controller's system and classify expenditures to the correct object codes.	61
Utilize other available moneys before making expenditures from general fund appropriations.	62

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Establish a miscellaneous or appropriate income account to record revenue items.	62
Consult with the state controller to develop criteria as to the classification of income as revenue or refunds.	63
Deposit reimbursements of prior year's expenditures as revenue to the General Fund.	63
Establish a system to identify and plan purchasing requirements in order to comply with the buying schedules established by the state purchasing agent.	64
Submit requisitions for purchases through the state purchasing division before ordering the goods, in accordance with state purchasing regulations.	64
Eliminate maintenance of duplicate payroll records and reports.	71
Establish a system of documenting the time and nature of services provided by the board's attorney and other consultants.	71
Prepare information forms (Form 1099) for all compensation paid for services not subject to withholding for taxes.	73
The state controller:	
a. Provide state agencies with a reminder and guidance as to the necessity of filing Form 1099's for compensation paid which is not subject to withholding.	73
b. Explore the feasibility of using automatic data processing to prepare Form 1099's.	73
Implement the necessary procedures to assure compliance with vacation statutes.	73
Establish formal control over the issuance of transportation request books and implement procedures to assure the books are returned upon employee or board member termination.	75
Limit issuance of TR books to employees who travel on a continual basis.	75
Revise chart of accounts to include fixed asset account classifications for land, buildings, and improvements.	78
Identify all land owned by the board, and buildings and improvements located thereon, assign a value to each, record in general ledger control accounts, and establish a subsidiary ledger to account for each property item.	78

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Assign a value to each equipment item on hand at the time of the November 1970 inventory and items acquired since that time.	78
Adjust general ledger equipment accounts to agree with the physical inventory conducted in November 1970, and record additions and deletions since the inventory was taken.	79
Establish a subsidiary ledger in which each equipment item is individually accounted for.	79
Record future additions and deletions on the basis of cost at the time of the transaction and adjust the accounts accordingly.	79
Implement the other directives enumerated in Management Memo No. 70-17.	79

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

G. DEAN REED, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Montana State Water Resources Board as of June 30, 1970, and the related statements of operations as set forth in the table of contents in this report, for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements have been prepared on the cash basis of accounting and do not show financial position or operating results as do statements prepared on the modified accrual basis in accordance with generally accepted accounting principles applicable to governmental units.

The board has not maintained accounts for land and improvements owned by the board. These properties for the most part consist of water project sites located throughout the state. Board records relating to the projects prior to 1960 do not distinguish between construction cost and operating and maintenance expenses. However, the records show their combined cost to be in excess of $19,000,000.

The board's accounts for recorded fixed assets have not been accurately maintained. The accounts have not been adjusted to reflect the results of physical inventories and deletions of fixed assets are not recorded. Present board procedures merely provide for the addition to the accounts of the acquisition of equipment items in total. No subsidiary records are maintained.

Because of the materiality of the amounts involved relating to the board's fixed assets and the omission and inaccuracies relating to these items as discussed above, we are of the opinion that the board's balance sheet for fixed assets does not fairly present the board's investment in fixed assets as of June 30, 1970.

In our opinion, subject to the exceptions described in the preceding paragraphs, the accompanying financial statements, except for fixed assets, present fairly the financial position of the Montana State Water Resources Board as of June 30, 1970, and the results of its operations for the year then ended, in conformity with generally accepted governmental accounting principles applied on a basis consistent with that of the preceding year.

We submit the financial statements and appendices listed in the table of contents together with the following comments.

COMMENTS

GENERAL

The State Water Conservation Board was created by the legislature in 1933. Under its enabling legislation the board was charged by law with the coordination and actual construction, operation and maintenance of a statewide system of water projects. These projects were to be designed to conserve, develop, store, distribute, and utilize the water of the state for purposes such as irrigation, flood prevention, fire protection, drainage, fish and wildlife, as well as other domestic and industrial uses.

In 1967 the legislature enacted the Montana Water Resources Act (Chapter 158, Laws of 1967) which redesignated the State Water Conservation Board as the Montana Water Resources Board. The act significantly expanded the state policy in the area of water resource development and utilization. The act also broadened and increased the powers and responsibilities of the board. In addition to its former responsibilities over a system of projects, the board is now responsible for: (1) preparing a continuing comprehensive inventory of the water resources within the state; (2) formulating and adopting a state water plan relating to the future use of the water resources within the state; (3) overseeing weather modification and control activities; and (4) assisting in the formation of conservancy districts, which are public corporations authorized by statute for the purpose of accomplishing water conservation and development on the county level as opposed to on a statewide basis.

The activities of the Water Resources Board are governed by a board of seven members. Two of the members, the governor and the agency director, are members ex officio. The remaining five members are appointed for six-year terms by the governor with the consent of the Senate. The director,

who is also appointed by the governor, is the chief administrative officer of the agency which, on June 30, 1970, had 72 employees.

The various functions of the board are primarily financed by appropriations from the General Fund. The board also utilizes earmarked moneys obtained mostly from water sales and loan repayments, as well as federal grant moneys. A five-year summary of expenditures from each fund is presented in the following table:

MONTANA WATER RESOURCES BOARD
Five-Year Summary of Expenditures
By Fund

Fiscal Year Ended June 30	General Fund	Earmarked Revenue Fund	Fed. & Private Revenue Fund	Total
1966	$293,711	$274,119	$ --	$ 567,830
1967	342,900	279,287	26,901	649,088
1968	891,678	187,175	37,679	1,116,532
1969	931,168	142,766	38,061	1,111,995
1970	767,438	150,027	56,935	974,400

Note: Fiscal years 1966 and 1967 include expenditures by the State Planning Board.

During the 1971 legislative session, the Montana House of Representatives passed House Resolution No. 32, directing the Montana Legislative Council to study all phases of the board's operations. The resolution also directed the council to use the services of the legislative auditor and Legislative Audit Committee in making the study.

Our examination of the board was in progress prior to the passage of the resolution; however, the comments in this report are intended to be responsive to House Resolution No. 32 and to provide information which may be relevant in the council's study of the board.

ACCOUNTING SYSTEM

The accounting system maintained by the board does not adequately account for the activities of the agency. We noted several areas where basic improvements should be made by the board. These areas are as follows:

General Ledger Accounts

The board's general ledger contains approximately 190 accounts, of which at least 107 can be eliminated because the accounts are either duplications of subsidiary accounts or are not needed. There are 17 cash-in-bank accounts and 13 expense accounts which will be eliminated if the board implements our subsequent recommendation on depositing bonded project income directly in the state treasury. The general ledger also includes 55 receivable accounts used for recording the payments and balances due from the water users. The information recorded in these 55 accounts is also recorded in subsidiary accounts. The individual receivable accounts in the general ledger should be eliminated and replaced by two control accounts, one for water user contracts and one for repayment agreements. The general ledger also includes 24 "potential water sale" accounts. These accounts represent the estimated value of unsold water contained at several of the projects. If such information is needed, it can be maintained separately but should not be recorded in general ledger accounts.

The accounts should also be rearranged, renumbered, and titles changed in many instances to more accurately reflect the nature of the accounts and to provide a more logical accounting system. The present charts of accounts does not have an overall logical plan of organization and the account numbers and titles too often tend to confuse rather than explain the nature of the accounts. Separate cash accounts are not maintained by the board

for moneys in the Earmarked Revenue and Federal and Private Revenue Funds. The general ledger contains accounts with such non-descriptive titles as "Revolving" and "Surplus." In these two instances, the account titles are meaningless without extensive analysis, yet these two accounts are obviously of some significance, having balances at June 30, 1970, of $7,100,000 and $6,500,000 respectively. The $7,100,000 consists of the reserve and fund balances of the board's various treasury fund accounts and the $6,500,000 represents the total of the potential value of water purchase contracts (unsold water).

Elimination of duplicate accounts and reorganization of the board's general ledger to include more concise terminology and organization would simplify and reduce the number of accounting entries required to record the board's activities. In this regard the state controller is presently developing a statewide accounting system that will include a basic uniform chart of accounts. The chart of accounts utilized by the board should be compatible with the new statewide accounting system.

RECOMMENDATION

We recommend that the board:

1. *Consult with the state controller to obtain general guidelines and criteria for revising the chart of accounts in content and terminology which will be compatible with the statewide accounting system.*
2. *Eliminate the general ledger accounts that are duplicative of subsidiary accounts and establish control accounts in their place.*
3. *Review and eliminate other general ledger accounts that are no longer needed.*

Books of Original Entry

The board does not have a complete system of books of original entry. Books of original entry normally consist of journals or registers in which frequent transactions of a similar nature, such as cash receipts or cash disbursements are entered. A general journal is usually maintained to record infrequent or unusual transactions, such as adjusting and closing entries. Books of original entry are normally posted to the general ledger accounts on a monthly basis.

At present the board maintains only a "voucher register" which, in essence, is a cash disbursements journal. However, the board records both cash receipts and cash disbursement transactions in the voucher register, which is posted monthly to the general ledger. In certain instances, however, cash receipts entered in the voucher register are posted individually to the general ledger, while other cash receipts bypass the voucher register and are posted directly to the general ledger.

Since the board does not use a general journal, adjusting, closing, and other unusual entries are recorded directly in the general ledger from claim forms which do not adequately explain the nature of the transactions.

The board needs a formal set of books of original entry, including records necessary to adequately record, account for, and disclose the nature of all transactions. As previously mentioned, the state controller is devising a statewide system of accounting, which includes a system of integrated and centrally maintained accounting records. The board should consult with the state controller to insure that proper consideration is given to the records needed by the board to account for and disclose its activities.

RECOMMENDATION

We recommend that the board consult with the state controller to insure that the accounting record needs of the board are properly considered in the formation of the statewide accounting system.

Periodic Reconciliations

Our comparison and analysis of accounting records maintained by the state controller and the board disclosed a number of significant differences. We found, for example, that financial data which should be the same, or at least reconcilable, in the state controller's records, board records, and the board's annual report, was in fact different in many instances. Some of the more significant differences are summarized for both the board's Earmarked Revenue Fund account and the Federal and Private Revenue Fund account in the following table:

WATER RESOURCES BOARD
COMPARISON OF FINANCIAL DATA RECORDED
BY STATE CONTROLLER, WATER RESOURCES BOARD,
AND THE BOARD'S 1969-70 FINANCIAL REPORT
Fiscal Year Ended June 30, 1970

EARMARKED REVENUE FUND

Description	Controller's Report	Board Records	Board Financial Report
Beginning Balance 7/1/69	$ 78,320	$ 78,320	$ 78,761
Income	130,505	131,980	137,597
Total	208,825	210,300	216,358
Expenses and Transfers	152,027	113,721	150,027
Ending Balance 7/30/70	$ 56,798	$ 96,579	$ 66,331

FEDERAL AND PRIVATE REVENUE FUND

Description	Controller's Report	Board Records	Board Financial Report
Beginning Balance 7/1/69	$ 54,281	$ 43,999	$ 43,999
Income	53,200	53,200	53,200
Total	107,481	97,199	97,199
Expenses	56,935	67,274	56,935
Ending Balance 6/30/70	$ 50,546	$ 29,925	$ 40,264

As shown above, the amounts recorded and reported by the state controller differed materially from those amounts recorded and reported by the board. Board personnel advised us that these differences exist because the board has not reconciled its records to the state controller's records since 1968. Such reconciliations have not been made, according to board personnel, because of the different manner in which the board accounts for revenue affecting the funds, and because the general ledger used by the board does not include separate cash accounts for either the Earmarked Revenue Fund or the Federal and Private Revenue Fund. Because of these differences it is difficult to compare income, expense, and account balances shown on the board records with the state controller's records. It is also because of these differences that the amounts reported in the board's annual financial report are different. In compiling the annual report, the board analyzes the balances in its records, selectively adjusts and corrects data, and arrives at a set of figures which are different from those shown in both the board records and the state controller's records.

Although the board has been aware of the discrepancies between their reports and records and those maintained by the state controller, no adjusting entries have been made to bring the various records into agreement. As a result, those errors and inconsistencies recorded in prior years are carried forward in the form of erroneous account balances.

This situation could be averted by using cash accounts to record revenue and expenditures in the Earmarked Revenue and Federal and Private Revenue Funds, by reconciling to the state controller's records on a monthly basis, and by initiating adjustments where necessary to bring the records into agreement.

RECOMMENDATION

We recommend that the board:

1. *Establish and maintain cash accounts within its records for the board's accounts in the Earmarked Revenue and Federal and Private Revenue Funds.*
2. *Initiate the adjustments necessary to bring its records and the state controller's records into agreement.*
3. *Reconcile the balances in its accounts monthly to the accounts maintained by the state controller.*

CASH CONTROL

Ideally, a system of internal control over cash transactions should provide assurance that (1) all cash which should have been received was in fact received and recorded promptly and accurately, (2) cash disbursements have been made only for authorized purposes and have been properly

recorded, and (3) cash on hand and in depository banks is accurately recorded and subject to appropriate safeguards.

In our review of the board's cash handling and recording procedures we found certain weaknesses that should be corrected. We recognize that standards of internal cash control are often difficult to achieve in agencies where the number of employees in the accounting section is limited. However, we believe that present levels of internal control within the board can be upgraded with a few changes and without additional employees.

Cash Receipts

Checks received by the board are generated primarily from the operation of the board's water projects. Present procedures do not provide for placing a restrictive endorsement on these checks until the time of deposit. To assure proper control, a restrictive endorsement should be stamped immediately on all incoming checks.

Upon receipt, the checks are forwarded to the board's accounting division where receipt forms are completed, accounting entries made, and the checks deposited. The issuing of receipts, the recording of the receipts in the accounting records, and the reconciling of the bank statements are accomplished by the same employee. Internal control would be improved if the bank reconciliation task was performed by a different employee. In addition, we noted that there was no formal reconciliation of the receipts and deposits made to the state treasury.

Checks not deposited immediately are retained in a small fire vault. The key used to open the vault is left in an unlocked desk. The vault and key are kept in a room where employees and visitors have access. At

times the room is left unoccupied. At the time of our examination the vault contained $36,000 in checks. The safeguarding of the checks could be improved by limiting the access to the vault and restricting the use of the key to authorized personnel.

RECOMMENDATION

We recommend that the board:

1. *Place a restrictive endorsement on all incoming checks immediately upon their receipt.*
2. *Segregate the duties of handling receipts and performing bank reconciliations.*
3. *Reconcile the receipts with the deposits in the state treasury on a monthly basis.*
4. *Limit access to the fire vault and key and designate the personnel responsible for controlling this access.*

Depositing Procedures

Section 79-306, R.C.M. 1947, states: "All departments of the state government located at the capitol shall deposit with the state treasurer daily all moneys, credits, evidences of indebtedness and securities received."

We found that moneys received for deposit in the state treasury were held for varying periods of time and generally were not deposited on a timely basis. We were informed that moneys earmarked for trustee banks are deposited no later than the next day after receipt of the checks. However, moneys received for deposit in the state treasury are held for varying lengths of time. In one notable case, a $5,000 check was held for approximately six months, and a new check had to be requested before the money could be deposited.

In our analysis of depositing procedures we found that the board does not always deposit receipts intact. For example, during the year they retained $1,300 in small checks from the water users of one project and used the money to pay for the purchase of water from another project. The $1,300, which would normally be deposited in the board's Earmarked Revenue Fund account, was deposited in the trustee banks and eventually to the General Fund. A better procedure would be to deposit the money intact to the Earmarked Revenue Fund and prepare a journal voucher to effect the interfund transfer.

RECOMMENDATION

We recommend that the board deposit all receipts intact in the state treasury on a timely basis.

Deposit of Collections on Bonds

In the 1930's the board constructed 17 projects which were partially financed through the sale of revenue bonds to the Reconstruction Finance Corporation (RFC), a federal government agency. The bond indentures stipulated that the revenue received from the projects to pay the principal and interest on the bonds would be deposited in trustee banks. In 1951, the state legislature approved a general fund appropriation to purchase the outstanding bonds held by the RFC and the state became the bondholder. However, the practice of depositing the revenue with the trustee banks was continued even though the board's obligation to the RFC has long since been satisfied.

At the time the bonds were purchased, the legislature directed (Section 89-116.1, R.C.M. 1947) the board to deposit all revenues from the 17 projects to the General Fund. This is eventually accomplished

but the revenue collected, which is in excess of $100,000 a year, is first deposited in non-interest bearing bank accounts. The trustee banks charge approximately $1,000 a year in trustee fees. At the end of the fiscal year the board draws checks on the trustee banks in amounts sufficient to pay the interest coupons or retire the bonds. This necessitates additional time and effort to identify the amounts needed to pay the interest on principal, to draw and deposit the checks, to record the accounting entries, and to cancel the interest coupons and bonds.

We believe the board should deposit the revenues directly into the state treasury to the General Fund rather than first depositing the money with the trustee banks. This practice would be more efficient and economical. The trustee fees would be eliminated, the money would be available sooner in the General Fund for use or investment, the number of accounting entries would be reduced, and 30 general ledger accounts would be eliminated.

RECOMMENDATION

We recommend that the board:

1. *Close the trustee bank accounts and deposit the money in the General Fund.*
2. *Deposit all future revenues from these 17 projects directly in the General Fund.*

Contingent Revolving Advance

Section 79-602, R.C.M. 1947, gives the state controller the authority to establish, under specific regulations, contingent revolving advances for use by state agencies for payment of demands requiring immediate cash payment. The board has a contingent revolving advance of $2,000 but it is not adequately accounted for or controlled.

The activity of the advance account is not recorded in the general or subsidiary ledgers. The chief accountant is responsible for issuing checks against the contingent revolving advance and he also has access to the accounting records. In order to improve control, someone who is not responsible for accounting for the advance, such as the director of the administration division, should be responsible for issuing checks against the contingent revolving account.

The state controller's Management Memo No. 69-2, dated October 14, 1969, stipulates that the account should be reconciled each month. The last reconciliation prepared by the board covered a two-month period ending October 31, 1970, and was inaccurately prepared. Accurate reconciliations prepared on a timely basis are necessary so the board and the controller are assured that the money is being properly accounted for and controlled.

Control over the activity of the account has not been adequate. For example, a number of travel advances originally paid from the contingent revolving advance account had been outstanding for six months. The corresponding travel claims had been submitted and the traveling employees were paid by warrant in addition to their advances. When we informed the board of this matter, steps were taken to collect these advances. However, we understand that one of the employees has terminated and collection of the outstanding advance is doubtful. In addition, the former chief accountant owed about $280 at the time of his termination which resulted from a number of travel advances paid to himself for travel assignments which were subsequently not taken. Board officials indicated they were not aware that the money was owed until we reconciled the account and brought the matter to their attention. The amount owed was collected

when the employee terminated in February 1971. This demonstrates the need for reviewing and reconciling the contingent revolving advance account to assure that the activity of the account is controlled. Since disbursements are made from the account before going through the normal claim processing procedures, it is necessary for the board to initiate adequate safeguards to assure proper handling and control of the advance.

In some cases payments from the account have not been supported by adequate documentation. For example, travel advances were made without any documentation indicating that the employees were going on authorized travel assignments. A claim was also paid based on the cancelled personal checks of an employee rather than the invoices or receipts for the products purchased. In December 1970, the board adopted a travel advance form which requires the approval of the division head and the director.

RECOMMENDATION

We recommend that the board:

1. *Establish the necessary general and subsidiary ledger accounts to record the activity of the contingent revolving account.*
2. *Assign the responsibility for issuing checks from the account to someone not responsible for the accounting function.*
3. *Reconcile the contingent revolving account monthly.*
4. *Provide for adequate documentation supporting payments from the contingent revolving account.*
5. *Establish a record of travel advances and periodically review the record to assure collection of the travel*

advances which are outstanding after the travel assignments are completed.

WATER PROJECTS

Over the past 37 years the primary function of the board has been the construction, operation, and maintenance of water projects. These projects consist of a statewide system of 180 dams, reservoirs, canals, and ditches which were constructed by the board, or under board supervision, for the conservation, development, storage and utilization of water within the state. The projects were constructed during the period 1935 through 1959, and although no new projects have been undertaken since 1959, considerable expense has been incurred by the board in the operation and maintenance of the existing projects.

Board records indicate that many of the early projects constructed by the board were the result of a cooperative effort between the Federal Government and the state. These projects and, in fact, the creation of the board itself, were apparently undertaken for three basic purposes: (1) to overcome the depressed economic conditions of the 1930's, (2) break the severe drought which existed at that time, and (3) erect projects which would be of lasting benefit to the state. Various board records indicate that the primary purpose of the projects from a federal standpoint, was the alleviation of mass unemployment through the establishment of work programs such as the construction of public works projects. The records infer, however, that Montana was the only state which participated with the Federal Government in the construction of water resource projects. Consequently, many of the problems encountered during the construction and operation of the projects are apparently unique to Montana.

Our review of the projects disclosed that comments pertaining to the projects fall into two general areas; i.e., those pertaining to construction and those pertaining to operation and maintenance. Accordingly, the following comments are grouped in that manner.

Project Construction

The 180 projects constructed by the board were financed through the use of three general techniques. These techniques were (1) the sale of revenue bonds, (2) federal and private grants, and (3) state appropriations. In many cases a combination of these techniques was used except that revenue bonds were used only in 1940 and earlier. The more recent projects were constructed using moneys from grant and state appropriation sources.

Board records of costs prior to 1960 do not clearly distinguish between construction costs and other expenses, such as operation and maintenance. Because of this, and the fact that most of the projects span a period of nearly 40 years, it is difficult to identify with certainty the amount and source of financing. Based upon the board's records and an analysis of available project documents, the following table depicts the amounts and avenues of financing used in the construction of the 180 board projects to the extent information is available.

WATER RESOURCES BOARD
Initial Source of Financing for
Project Construction

Proceeds of revenue bond sales	$ 4,398,500
Federal and private grants	7,024,188
State appropriations (see note)	8,021,926
Total	$19,444,614

Note: Includes amounts used for operation and maintenance prior to 1960.

The revenue bonds sold by the board consisted of 23 separate bond issues which were sold in the mid and late 1930's. Nineteen of the issues were wholly purchased by a now defunct agency of the Federal Government, while the remaining four issues were sold to private entities.

In 1951 the Federal Government allowed the state an opportunity to buy back the outstanding bonds at a substantial discount. To accomplish this, the 1951 Legislative Assembly appropriated $1,450,000 to the board from the General Fund, which was combined with other moneys available to the board to purchase the 17 bond issues then outstanding and held by the Federal Government. Consequently, for the price of $1,534,882, the state retired, in effect, an outstanding bond debt of $4,845,309, consisting of $3,926,835 in outstanding revenue bonds and $918,474 in accrued interest. Although these bonds are no longer outstanding insofar as the state is concerned, the board has continued to account for the bonds and retire them as project revenues permit.

Our analysis of the projects disclosed that the board currently has an active interest in 36 projects. On these projects the board is either actively managing the project, as is the case with the Daly Ditch project, or the board is receiving revenue from the project and/or incurring expenses on the project. The remaining projects are essentially inactive as far as the board is concerned because the project construction costs have been repaid, the board is not collecting any revenue because the project is dormant, or the board has not recently incurred any significant expenses in connection with the projects.

The 36 active projects can be segregated, for purposes of discussion, into three general categories; namely, 17 projects financed primarily by

bond issues; 18 projects financed principally through state appropriations; and the Daly Ditch project which was acquired by the board from a private firm. The Daly Ditch project is unique from several standpoints. First of all, it is the only project developed by a private enterprise and subsequently taken over by the board; and secondly, it is the only project which the board completely manages and operates. The other active projects are all managed, operated, and maintained by the respective water user associations with the board being involved only to the extent of overseeing the operation of the projects and collecting the revenue. Water user associations are state chartered organizations formed by the beneficiaries of the water projects under the direction of the board.

Our analysis of the projects classified as active disclosed two major areas of concern. First of all, we found that generally the cost of projects has not been properly allocated and recorded by the board and, as a result, the actual cost of projects has been materially misstated in the board's records. Secondly, we found that the projects are not being operated on a self-sustaining basis and, as a result, the state is not recovering its investment in the projects as required by law.

Cost Allocation

The term "project costs" as used in the following paragraphs refers to project construction costs subject to reimbursement to the state through the sale of project water to water users. In this context, project costs are materially distorted in the board records because (1) the cost of acquiring the revenue bonds has not been properly allocated to the benefiting projects, and because (2) the board recorded certain costs of operation and maintenance as project costs.

In the first instance the board did not properly allocate the costs associated with the purchase of the revenue bonds from the Federal Government in 1951. As previously described, the board acquired $3,926,835 in revenue bonds at a discounted price of $1,534,882. As a means of recognizing this transaction in its records, the board allocated the 1951 acquisition price of the bonds to the benefiting projects. This allocation was made on the basis of the financial stability of the projects in 1951, rather than on a more meaningful basis, such as the ratio of bond debt outstanding to the 1951 purchase price. For example, one project was allocated $420,000 by the board, whereas an allocation based upon the outstanding bond debt would have resulted in an allocation of $184,186, or less than one-half the amount that was allocated. Other projects were allocated $1.00, even though the ratio of debt outstanding to the bonds purchased at a discount was much greater. The effects of the manner in which the board allocated the 1951 purchase price to the bonded projects is depicted in the following table:

WATER RESOURCES BOARD
EFFECTS OF BOARD ALLOCATION OF
1951 REVENUE BOND PURCHASE

Project	Allocation Based Upon Ability To Pay	Allocation Based Upon Ratio of Outstanding Debt	Project Costs Overstated (Understated)
Broadwater Missouri	$ 420,000	$ 184,186	$ 235,814
Tongue River	195,000	245,581	(50,581)
Willow Creek	1	46,046	(46,045)
Rock Creek	260,000	230,232	29,768
Ruby River	176,000	107,442	68,558
North Fork Smith River	130,000	30,698	99,302

Project	Allocation Based Upon: Ability To Pay	Allocation Based Upon: Ratio of Outstanding Debt	Project Costs Overstated (Understated)
Deadman's Basin	$ 876	$ 46,046	$(45,170)
Columbus	1	4,605	(4,604)
Nevada	1	46,046	(46,045)
Sidney	1	12,279	(12,278)
Flint Creek	1	107,442	(107,441)
Upper Musselshell	50,000	153,488	(103,488)
Park Branch	32,000	10,744	21,256
Livingston Ditch	10,000	3,070	6,930
West Fork Bitterroot	44,000	199,535	(155,535)
Ackley Lake	1	15,349	(15,348)
Middle Creek	217,000	92,093	124,907
Total	$1,534,882	$1,534,882	$ -0-

The cost records maintained by the board for the projects are also distorted as a result of a board practice in which certain project operation and maintenance expenses were recorded as project costs. As explained more fully in the next section, operation and maintenance expenses associated with the projects are normally accounted for and recovered separately from project construction costs. In 1961, however, the board transferred accrued project operation and maintenance expenses in excess of $2,000,000 from the operation and maintenance accounts to the project cost accounts. According to board records, this was done to fairly reflect, in the board's words, the assets of the board by adjusting the accounts to the board's estimation of the appropriate amount of construction costs.

We believe the practice of recording operation and maintenance expenses as project costs is improper in terms of generally accepted accounting

techniques and practices and is not consistent with statutory requirements for full recovery of all costs as discussed in the next section of this report. In our opinion, the use of this technique in addition to the improper allocation of 1951 bond purchase costs has obviated the accuracy and usefulness of the board's project cost records. Since the projects are state assets, accurate and complete records should be maintained to disclose the total cost and source of financing of the projects. Information of this type is necessary to adequately disclose the value of board assets, show the extent of state pecuniary involvement, and provide a source of complete information upon which informed decisions can be made.

RECOMMENDATION

We recommend that the board:

1. *Reallocate the cost of acquiring the revenue bonds in 1951 on the basis of debt outstanding at that time and adjust the project cost records accordingly.*
2. *Record non-project costs, such as operation and maintenance expenses, in accounts which are separate from project cost accounts.*

Self-Sustaining Operation

The statutes authorizing the board to construct water projects generally provide that the projects be self-sustaining to the extent that revenues derived from each project should be sufficient to pay the costs of maintaining, repairing, and operating the project, in addition to providing moneys for debt retirement. In fact, Section 89-105, R.C.M. 1947, specifies that the self-sustaining capability of each

respective project must be estimated before constructing the project and that unless such capability is demonstrated, the project cannot be constructed.

The statutory intent that the water projects be self-sustaining is further supported by other statutes governing the board which authorize the board to fix and establish prices, rates, and charges for water use and other services at levels which will meet construction, operation, and maintenance and repair costs. Consequently, there is little doubt that the projects constructed by the board are supposed to be self-sustaining.

Analysis of the projects constructed by the board disclosed that not all the projects have been self-sustaining and that, as a result, the state, in all probability, will not recover upwards to $3,000,000 of the state investment in construction costs that should be recoverable. Final determination of the unrecoverable amount will depend upon the ability of the board to sell available project waters. The following table prepared from board records illustrates the recovery status of these costs as of June 30, 1970.

WATER RESOURCES BOARD
SUMMARY OF NONRECOVERABLE CONSTRUCTION COSTS
ON ALL PROJECTS AS OF JUNE 30, 1970

Description	Costs Subject to Recovery	Revenue To Date	Outstanding Receivables	State Investment Over Recovered	State Investment Will Not Be Recovered
Active Projects					
Bonded Projects	$4,510,437	$3,267,769	$1,827,184	$1,107,025	$ 522,509
Other Active Projects	4,301,903	837,332	1,655,937	118,019	1,926,653
Inactive Projects					
Operational	489,946	18,006	-0-	-0-	471,940
Inoperative	254,522	164,156	-0-	-0-	90,366
Total	$9,556,808	$4,287,263	$3,483,121	$1,225,044	$3,011,468

Source: Summarized from Appendix I.

Note: Excludes Daly Ditch project.

While the preceding table depicts the financial incapability in a general manner for all board projects, including those which are inactive, the same characteristics are prevalent in almost all of the 36 active projects presently under board control. Of the 36 active projects, only 11 projects appear to be self-sustaining in terms of income and expenditures. The fact that these projects show an over-recovery of state investments to the extent of $1.2 million does not mean that the various water users are being overcharged. The appearance of over-recovered costs on the bonded projects is primarily a reflection of the favorable purchase price paid for the outstanding bonds in 1951. In fact, our analysis of the revenue produced by these projects indicated that if the bonds were still outstanding and owned by someone other than the state, the amounts collected to date would be barely sufficient to pay the interest earned on the bonds. During 1969-70, for example, revenue received from the water purchase contracts totaled approximately $125,000, and the interest requirement for the same period was approximately $121,000. In some cases individual projects are not collecting enough revenue on an annual basis to even meet the annual interest requirements. For example, on one project during the fiscal year the board collected approximately $16,000 in revenue and the interest earned on the bonds would have been about $22,000.

In contrast to the 11 projects which appear to be self-sustaining, the remaining 25 active projects are clearly not self-sustaining. That is, the projects are not producing sufficient revenue to reimburse the state investment in the projects. The identity and relative status of these projects, as well as all other projects, is presented in greater detail in Appendix I.

It is fairly obvious, in our opinion, that the revenues generated by the projects have not been sufficient to recover the costs in accordance with law. We believe this condition has resulted primarily from: (1) the method used by the board to originally estimate the financial feasibility of the projects; (2) the failure to adequately enforce contracts with water user associations; and (3) the failure to insure that all users of the projects are paying the appropriate amounts for benefits received.

In estimating the financial capability of the projects, contracts to purchase water were obtained by the board from individuals located in the area of the project. Using these contracts as a basis, the board evaluated the feasibility of the project and, where warranted, proceeded with construction of the project. Although it is not substantiated in the records, we were informed that the securing of contracts was a prerequisite necessary to obtain federal moneys and that, in many instances, contracts were signed by individuals who had no need for water and no intention to purchase it. These individuals apparently signed the contracts as a gesture necessary to demonstrate to the federal agency purchasing the bonds that the project would be financially sound. Consequently, the water user rates and periods of repayment were based upon an unrealistic number of users and, as a result, anticipated revenues did not materialize, and the projects became financially unsound.

Had the board realistically evaluated the financial feasibility of the projects prior to undertaking them as required by law, we believe the chances of subsequent financial instability such as that which now prevails, would have been significantly minimized.

The financial problems of the projects are also brought about by the failure of the board to enforce the contractual agreements with the local water user associations and the individual water users. Users of water projects pay for the benefits received through water user contracts between the individual users and local water associations, which are recast in the form of water marketing contracts between the local associations and the board.

Analysis of the board's records disclosed the board has not enforced collection of the amounts due under the water marketing contracts with the water user associations and has only received the revenues paid by the individual users. For example, water marketing contracts affiliated with the bonded projects should have resulted in revenues to the board of $8,398,233. As of June 30, 1970, however, only $3,267,769 has been received pursuant to these contracts, as illustrated in the table on page 24.

Lastly, we believe the generally poor financial condition of the projects also stems from the fact that the board has no means of assuring that all users of projects are properly compensating the state for water received. Although some of the board projects have measurement devices of one sort or another installed, the board makes no use, insofar as we could determine, of these devices to insure that the state is adequately compensated by the users of project water. The extent to which users derive water from the projects, insofar as the board is aware, is apparently a combination of hearsay and understanding based upon water user contracts, the terms of which were established as many as 35 years ago. With one exception (Daly Ditch project), the operation and control of the projects

is within the purview of the local water user associations, which are comprised of the individual water users. The extent to which the various individual water users benefit from the projects is apparently known only to the users themselves and, as a result, there appears to be no effective external controls to insure that the state receives the proper compensation from the users.

Although we recognize that criticism of the manner in which projects came about, and their present financial condition may seem irrelevant in terms of the original intent of the projects, i.e., relieve economic and drought conditions, we believe the board can benefit from the past experience. With respect to existing projects, we believe the board should analyze each active project to: (1) identify the conditions which are retarding the development of revenue from the project, (2) determine the alternative measures available to the board to increase project revenue, and (3) implement those measures which will expedite the recovery of project construction costs. Included in these measures should be the development of new uses for project water and procedures to insure that all water used from the respective projects is paid for by the water users.

Insofar as the future is concerned, we believe the board should develop standard procedures to provide for the realistic determination of project feasibility, in accordance with Section 89-105, R.C.M. 1947. These procedures should assure, pursuant to law, that projects under consideration have the " . . . prospective ability to meet, through the sale of water or other services, the cost of operation, maintenance, and repair and the amortization of the cost of the construction." Without this assurance we can see no present authority for the board to undertake a project until such time as the present statutes are amended or repealed.

RECOMMENDATION

We recommend that the board:

1. *Analyze each active project to identify the measures necessary to increase project revenue.*
2. *Implement measures to increase project revenue, including measures which will:*
   a. *Develop new users of project water.*
   b. *Insure that users of project water pay for the water which they receive.*
3. *Formulate effective standard procedures to be followed in determining the financial feasibility of contemplated projects in accordance with Section 89-105, R.C.M. 1947.*

Inactive/Operational Projects

As previously mentioned, a large number of the original 180 projects are inactive for various reasons. Seven of these projects are classified inactive because the board is not receiving revenue from the projects, purportedly because the projects are not operational. The state investment in these seven projects amounts to approximately $490,000, of which only $18,000 has been recovered. The remaining balance of the state investment ($471,940) has been partially written off by the board as being uncollectible ($276,748) with the remainder being held by the board as a "receivable." A more complete presentation of the financial circumstances of these projects is presented in Appendix I.

We visited four of the seven projects (Winnett, Hotchkiss, Big Dry, and Cataract) during the course of our audit and met with local officials and users at each site. Contrary to prior indications, we found that three of the projects (Winnett, Hotchkiss, and Cataract) were in fact

operating to a certain extent and were providing some water benefits to selected users. The fourth project (Big Dry) was not operating, but from all indications could provide numerous benefits if it were put into operating condition.

In the case of the Winnett and Hotchkiss projects, two individuals were regularly using water from each project for irrigation purposes without payment to the board. These individuals advised us, however, that their use of the water from the projects was contingent upon their own efforts maintaining and operating the diversionary canals. Since the board is not receiving payment from these users, over $61,000, comprising the state's investment in these two projects, is not being recovered and, in fact, has been written off by the board.

With respect to the Cataract project, we found that although no one was benefiting from the project directly, almost everyone contacted agreed that the project served to maintain the downstream flow of water in late summer. Again, however, no users were paying the board for the additional water provided by the project and, as a result, $196,958 of state moneys invested in the project remain unrecovered.

Our visit to the fourth project, the Big Dry project, confirmed that the project was not operating. Board records indicate that this project is inoperable because the dam was dynamited years ago as a means of averting a washout of the spillway and possible flooding. Our observation at the project site disclosed that with major repair work, the Big Dry project could be put into operation. In this regard, we were advised that if the project were operating, it would provide irrigation benefits to numerous ranchers in the area. Since the area surrounding the project site is

basically a dryland farming area, any degree of irrigation would result in increased benefits such as increased and varied crops. For this reason, we believe the board should determine the specific action and costs necessary to restore the Big Dry project to an operating condition and then evaluate the costs in terms of potential benefits. In accomplishing this, the board should consult with the landowners and other potential water users in the project area to obtain their views and expression of willingness to participate in the project.

The statutes requiring projects constructed by the board to be self-sustaining apply to inactive projects as well as active projects. In the case of the seven projects which are inactive because they were purportedly inoperable, only $18,000 of the state investment of $490,000 has been recovered. Since our visits to four of the seven inactive/operational projects disclosed that all four projects were providing some benefits or had significant potential, we believe the board should individually reevaluate all seven projects classified as inactive/operational projects. The purpose for such a reevaluation should be to determine whether: (1) users are presently receiving water from the project without corresponding payment, (2) water production from the project could be increased and what the cost of this increase would be, and (3) increased water from the project would be beneficial to the project area. Information of this type on each inactive/operational project would, in our opinion, disclose that even though the projects are not operating at full capacity, some benefits are being provided users without payment and that each of the projects has greater potential than is presently being realized. With this information, the board should resolve the present status and future of these projects by either developing the project or disposing of the state's interest in it.

RECOMMENDATION

We recommend that the board reevaluate each of the seven operable projects which are presently classified as inactive to determine whether:

1. *Some users are deriving benefits from the project without remuneration to the state.*
2. *The project benefits could be increased by restoring the project to full operating capability.*
3. *Restoration of the project is warranted in terms of costs and benefits.*

Other Inactive Projects

Aside from the 36 active projects and the seven inactive/operational projects discussed in the preceding paragraphs, about 138 projects are inactive in the sense that the board has not been receiving any revenue from the projects nor expending any moneys on the projects in recent years. The majority of these projects represent small projects which the board has written off for various reasons. This subject is covered more fully in the receivables section of this report. This group also includes a number of projects on which the state's investment has been fully repaid, as well as projects in which the state has not incurred any cost. The total state investment in these projects over the years is $254,522, of which about $164,000 has been recovered through project revenue. The remaining $90,000 has been written off by the board as uncollectible. The costs associated with projects is further summarized in Appendix I.

Due to the relatively small state investment in these projects and because the board has not been incurring any additional costs on these

projects, we did not visit the project sites or analyze them in any depth. Consequently, we offer no recommendations relative to these projects.

Project Operation and Maintenance

The statutory requirement that water projects be self-sustaining not only encompasses the cost of construction as previously discussed, but also pertains to the expenses of operation, maintenance, and repair of the projects. The requirement that projects be self-sustaining from the standpoint of operation and maintenance is clearly expressed in several statutes governing the activities of the board.

Section 89-105, R.C.M. 1947, specifically states that no project can be constructed unless the estimated revenue from the project will be sufficient to pay the expense of operating, maintaining, and repairing the project. In authorizing the board to execute trust indentures for the purpose of issuing bonds, Section 89-111(3)(d), R.C.M. 1947, empowers the board to enter into agreements to fix and establish prices, rates, and charges for water and other services at a level which will provide sufficient revenue to pay the expenses of operation, maintenance, and repair of the projects, as well as creating a reserve to meet contingencies with respect to the project. In fact, Section 89-115, R.C.M. 1947, makes it ". . . the duty of the board to enter into such contracts and fix and establish such prices, rates, and charges so as to provide at all times funds which will be sufficient to pay all costs of operation and maintenance . . . together with necessary repairs . . . ."

As a consequence of the foregoing statutes, there is little question about the fact that board projects are supposed to be self-sustaining, insofar as operation, maintenance, and repair expenses are concerned,

and that this self-sufficiency is supposed to be met through the levying of adequate prices, rates, and charges for project water and other project benefits. The board has approached this requirement in two separate manners: (1) repayment agreements in which local associations agree to reimburse the state for cash advances made by the board and for direct operation and maintenance expenses incurred by the board; and (2) annual assessments in which the individual users pay a prorated charge to the local associations for the operation and maintenance of the projects.

In the case of the Daly Ditch project the revenue derived through user charges is received by the board and used to defray project expenses incurred by the board. In all other instances the revenue derived for operation and maintenance charges is retained by the water user associations to defray their expenses, since they are directly responsible for the operation and maintenance of their respective projects. In those instances where the revenue received by the water user associations is insufficient to pay for the operation, maintenance, or repair of the projects, the board has provided moneys for such purposes. Since the projects are supposed to be self-sufficient, the board enters into repayment agreements with the water user associations, through which the state expenditures are to be recovered. Although some state expenditures for operation and maintenance have been recovered, our analysis of the projects disclosed that only three projects are self-sustaining in terms of operation, maintenance, and repair. As a consequence, the state is bearing a significant part of the financial burden of operation, maintenance, and repair of almost all projects, and because of this the state is incurring substantial expenses which may never be recovered, as required

by law. The monetary significance of these statements is illustrated by the following table and Appendix II which depicts in summary and detail the extent to which the state has incurred operation and maintenance expenses over the past 10 years.

WATER RESOURCES BOARD
STATUS OF PROJECT OPERATION AND MAINTENANCE EXPENSES
July 1, 1960 Through June 30, 1970

Description	State Expenses Subject To Recovery	Revenue To Date	Outstanding Receivables	State Expenses Which Will Not Be Recovered
Active Projects:				
Bonded Projects	$ 733,851	$181,302	$ 54,932	$497,617
Other Active Projects	425,149	51,349	106,981	266,819
Inactive Projects	53,725	-0-	-0-	53,725
Total	$1,212,725	$232,651	$161,913	$818,161

Note: Excludes costs associated with Daly Ditch project.

Source: Summarized from Appendix II.

The expenses associated with the Daly Ditch project were excluded from the foregoing table because the project is unique in that the board is directly responsible for the operation, maintenance, and repair of the project. In this regard, the Daly Ditch project has not been self-sustaining from the standpoint of operation, maintenance, and repair. Since the board acquired the project from a private concern in 1942, the board has spent about $1,424,000 on the project for operation and maintenance. During this period only about $1,045,000 has been recovered through user charges, leaving a deficit of about $379,000. When only the last 10 years are considered, however, the Daly Ditch project has been barely self-sustaining

in that operation and maintenance expenses of $411,000 have been incurred compared to revenue from user charges of $495,000 during the same period.

As indicated by the preceding table, operation and maintenance charges in total have not been sufficient to pay the expense of operating and maintaining the projects, let alone providing for a reserve for contingencies. As a means of ascertaining the trend and significance of operation and maintenance expenses incurred by the board and the extent to which the expenses have been recovered, we analyzed the expenses and revenue over the past 10 years. This analysis, which is presented in detail by project on Appendix II, showed that the state has consistently provided moneys to defray operation and maintenance expenses on almost all projects. It also disclosed that as a general rule, the state has not been recovering these expenses and will not recover them if the present trend continues. Exceptions are the Park Branch, Livingston Ditch, and West Fork of the Bitterroot projects and the Daly Ditch project, as previously discussed. In each of these projects, revenue for operation and maintenance is currently exceeding operation and maintenance expenses. In all remaining instances, operation and maintenance expenses have exceeded revenue and, as a result, the state has provided the amounts needed to pay the difference.

Not only is the state paying expenses on these projects which are supposed to be self-sufficient, but our visits to selected project sites disclosed that many of the projects are in serious conditions of disrepair. In some cases the repairs needed are major and the water user associations do not have the money necessary to accomplish the work. For example, one canal at the Flint Creek project is leaking to the extent that water from the canal is flooding private property. The leakage has apparently been serious enough to result in the water user association being served with

papers pertaining to a potential damage suit which, we have been advised, has been settled without court action. In a similar situation at the Nevada Creek project water is seeping from a project canal at a rate which is reportedly damaging a farmer's property. Because of this, the farmer has threatened to obtain an injunction to prohibit the use of the canal until the problem is rectified. An association official estimated that it would cost about $100,000 or more to remedy the situation and that since only four people are using the water from the canal, such an expense would be impossible to recover. The dam at the project is also in seemingly dangerous condition in that the concrete spillway is cracked and breaking away, the control gate is leaking, and the earthfill dam has large trees growing in it.

Another project, the West Fork of the Bitterroot, has defects in the dam which, although maybe not dangerous at the present time, could become crucial in the future. For example, the concrete on the spillway is cracking and crumbling to the extent that a six-inch hole exists in the side of the spillway. As a result of this hole and other cracks in the concrete, water leaks around the spillway and down the face of the earthfill dam. Similar conditions of disrepair were observed at almost all of the projects which we visited.

An obvious indication that many of the board projects need repair of some sort or another is also indicated by the fact that the board's budget request for the 1973 biennium included over $800,000 for the maintenance and repair of projects. Consequently, the board itself recognizes that the need for repairs is nearly a general condition on most projects and that revenue from operation and maintenance charges has been insufficient to provide for these repairs.

In this regard, officials at the various projects and various water users informed us that they could not afford to pay increased charges for maintenance and repair. They expressed the view that they would prefer to accomplish project maintenance and repairs through advances from the board, in much the same manner as has been done in the past. In those instances where the projects are not operating at all, such as the Big Dry project, or where the project is operating in a limited capacity, such as the Cataract, Hotchkiss and Winnett projects, the water users also indicated that because of a lack of money, they are unable to restore the projects to full potential. As a result, the state is not only paying expenses on projects which should be self-sustaining, but is also failing to realize the full potential on other projects.

Examination of board records and discussion with board representatives as well as various water users, disclosed that project revenue for operation, maintenance, and repair is inadequate for basically the same reasons that cost of construction is not being recovered. That is, the charges for operation and maintenance were set many years ago and have remained relatively static over the years. In the interim, many of the anticipated water users have not materialized, causing a shortage in revenue, while at the same time, costs associated with operation and maintenance, such as labor and materials, have risen. The end result has been that maintenance and repair have been deferred in many instances, and that major repairs have had to be underwritten by the state.

We believe there are basically three alternatives presently facing the board with respect to the operation, maintenance, and repair of the projects. First, the board can continue to defer maintenance and repair

of the projects, in which case the projects will continue to deteriorate and their full potential will fail to be realized. This alternative is incongruous, in our opinion, with the intent of the enabling legislation of the board which charges the board with responsibility over the projects and development of the state's water resources. Secondly, the board could turn the projects over to the users and water user associations. In this regard, a number of the water users and association representatives expressed the view that they did not want full responsibility for the projects because of the maintenance and repair problems and because they do not have the engineering and equipment capability to maintain the projects. Furthermore, if past performance is any indication, the maintenance and repair of the projects would not be accomplished by the users, and the projects would further deteriorate. This alternative also poses a potential legal and constitutional question in that turning the projects completely over to the users may not relieve the board of the debt represented by the state investment in the projects.

The final alternative available to the board, which we believe is most feasible and acceptable, is for the board to assume control of the projects to the extent that necessary maintenance and repair are accomplished and properly financed. To this end, we believe the board should formulate a written critique for each project on the basis of consultation with water users and analysis of board records. This critique should, in our opinion, include:

1. A factual determination of the past, present, and future direct and indirect benefits from each project.
2. A determination and evaluation of the reasons why revenue from operation and maintenance charges has been insufficient

to support the full extent of operation, maintenance, and repair expenses.

3. An accounting of state expenditures on the project for operation, maintenance and repair, and the status of those expenditures insofar as repayment is concerned.
4. A determination of what additional maintenance and repair work is warranted for each project in terms of potential direct and indirect benefits to the water users and the state.
5. A determination of the various alternatives available to the board in recovering, writing off, or otherwise disposing of past state expenditures for operation and maintenance.
6. A determination of the most appropriate manner of accomplishing and financing operation, maintenance, and repair in the future for each project.

Once the foregoing critique has been formulated for each project under the board's jurisdiction, we believe the board should resolve the status of each project by abandoning those projects which are providing no benefits and have no real potential, and restoring and maintaining those projects which are beneficial or which have unrealized benefits. With respect to those beneficial projects, the board should take whatever action appropriate to finance and effectuate the restoration of the projects. In accomplishing this, the board should, in our opinion, set the level of charges to water users for operation and maintenance at a level which will provide sufficient revenue to (1) reimburse the state for past expenditures determined to be recoverable, (2) finance routine operation and maintenance in the future, and (3) accumulate a reserve for contingencies. These

considerations are necessary since each project is required by law to be self-sustaining insofar as operation and maintenance are concerned.

Since nearly all projects are long-term in nature; i.e., span 30 to 50 years in terms of operation, we believe formal evaluation and judgment of project financial and operational conditions should be an on-going process. Consequently, we believe the board should periodically critique all projects under its control as a means of continually evaluating and overseeing the operation and status of all projects.

RECOMMENDATION

We recommend that the board:

1. *Formulate a critique of each project under its jurisdiction.*
2. *Resolve the status of each project as dictated by each critique by either abandoning or repairing the various projects.*
3. *Establish operation and maintenance charges which are sufficient to:*
   a. *Reimburse the state for past recoverable expenditures.*
   b. *Finance future operation and maintenance.*
   c. *Accumulate a reserve for contingencies.*

Measurement and Control of Water Provided by Projects

The means by which moneys are raised to repay the cost of construction and maintenance is through the sale of water provided by the projects. The various individuals who were to obtain water from the projects entered into contracts with water user associations and the board. For the most part,

these water purchase contracts consisted of a formal agreement in which the water users agree to pay an established rate for a certain amount of water. In most instances, the water user contracts were executed years ago when the projects were constructed and most of the contracts called for a payment period ranging from 30 to 50 years.

Generally, the payments made by water users are based upon a specified acre feet of water to be received. If the users receive water in excess of that originally contracted for, they generally pay for it at the initial rate set in the contract. Thus, since the payment to be made by the water users is directly related to and contingent upon the amount of water used, calibration of the amount of water used is a key factor in accurate and fair payment.

The various water user associations are responsible for the operation of almost all projects. This responsibility includes the distribution and delivery of water from the projects. The associations control the amount of water released from the projects and the amount of water delivered to each water user. This task is usually accomplished by means of a "ditch rider" or dam tender who is employed by the respective associations, and whose responsibility is to see that the appropriate amounts of water are measured and delivered.

Although payments under the water user contracts are purportedly based upon water delivered, few of the associations furnish the board with information as to who is using project water and how much water is being delivered. In the few instances where the board is provided such information, it is incomplete and is not used by the board. The information is incomplete to the extent that it does not reflect a measurement

of all water delivered from the projects. In addition, the board does not compare the amount of water reported as being delivered with the amounts contracted and paid for by the users. The users are billed for additional water only when the associations advise the board of the fact that additional water was delivered. This is a rare occurrence, and is probably brought about by the fact that the majority of associations do not have meaningful and accurate means of measuring water delivered to users.

Although many of the projects have measurement devices of one sort or another, such as parshall flumes, few of them are used as a basis for payment. There are numerous indications that some water users are receiving water without payment and that others are receiving more water than the amount contracted. There is general agreement among board personnel, association representatives, and water users that more water is released from the project dams and canals than is paid for. Although this is necessary to a certain extent to compensate for loss through evaporation and seepage, there is no assurance that fair payment is made by the recipients of this water unless accurate measurement is provided for at each water user's turnout. Data of this nature is the only assurance the board can have that water is not being misappropriated and that equitable payment is made by those receiving project benefits.

RECOMMENDATION

We recommend that the board take whatever action necessary to see that project water delivered to users is accurately measured and that measurements are compared with payments made by water users.

ACCOUNTS RECEIVABLE

As shown by Exhibit A, the board had $6,395,734 recorded as potentially recoverable project expenditures at June 30, 1970. For the most part these expenditures consist of the state's investment in construction ($5,255,799) as well as operation and maintenance expenses defrayed by the state over the years ($1,139,935). Although all of the foregoing amounts are considered to be potentially recoverable, only $3,839,418 has been recorded as receivables in the board's accounting records. The remaining $2,556,316 are not reflected as receivables in the board records because the board does not anticipate recovering the amounts, either because the projects are inactive or because there has been insufficient revenue in the past to repay the costs. For those amounts shown as receivable, the board sends out annual billings seeking scheduled repayment.

Billing Procedures

The board prepares annual billings for each water user. The billings include charges as established in the water user contracts and repayment agreements, as well as annual charges for operation and maintenance. In all, the board prepares approximately 2,400 billings, which take about 160 manhours. The entire process is accomplished manually.

We believe that the board should explore the possibility of converting this manual operation to automatic data processing. This could result in a more efficient billing process and provide the board with data which would assist in the collection of the amounts due, such as aging of receivables and identification of delinquent accounts.

RECOMMENDATION

We recommend that the board consult with the State Department of Administration as to the feasibility of converting its accounts receivable billing procedures to automatic data processing.

Amounts Recoverable Through Repayment Agreements

Although the users are being billed for the amounts agreed to in the repayment agreements, the board is not billing for all the costs incurred by the state. The following schedule reflects examples of the actual costs incurred by the board and the amounts established in the repayment agreements for selected projects.

Project	Cost Incurred	Repayment Agreement	Difference
"A"	$20,738	$11,550	$ 9,188
"B"	14,141	8,000	6,141

The costs incurred on project "A" were higher because the board repaired 7,700 feet of the irrigation canal rather than the 5,500 feet originally anticipated. The minutes of the board indicate that the board agreed to the reduced charges even though the association requested the work to be accomplished.

The estimated cost of repairs to project "B" was $8,000, but the actual costs were $14,141. The board's minutes indicate that the association would not sign a repayment contract for more than the estimated cost and that "The Board agreed to this compromise and a repayment plan will be worked out with them for the $8,000."

As discussed in the preceding "Water Projects" section, the statutes provide the projects are to be operated on a self-sustaining basis. Pending any change in the referenced statutes, we believe the board should include in the repayment agreements all the costs incurred by the state on the projects. Costs, which are charged to the state investment in the projects and not covered under repayment agreements, are only recoverable through the revenue received on water user contracts. As previously

pointed out, the financial status of the projects in terms of recovering the costs in this manner is poor. Therefore, if all applicable costs are not included in the repayment agreements, it is doubtful that they will be recovered.

RECOMMENDATION

We recommend that the board establish repayment agreements on the basis of total actual costs incurred by the board.

Allocation of Indirect Costs

The board does not charge the projects any indirect or overhead costs. Although these types of costs are not directly related to a project or group of projects, they are incurred by the board in its administration of the projects. Indirect expenses, such as administrative, engineering, and bookkeeping expenses, are partly attributable to the board's involvement in project operations. These are recoverable costs for which we believe the board should establish an overhead or indirect cost rate to be applied to repayment agreements with the water users. The allocation of indirect costs under a system of cost accounting has long been an accepted practice in both government and private enterprise. It not only results in an equitable distribution of costs to benefiting activities, but also results in an accurate disclosure of the cost of performing those activities.

RECOMMENDATION

We recommend that the board establish appropriate overhead or indirect cost rates to be applied against future water user contracts and repayment agreements.

Disposition of Uncollectible Receivables

In past years the board has taken bookkeeping measures to "write off" or cancel amounts receivable under various water user contracts. Because of the manner in which this was accomplished from a bookkeeping standpoint, it is difficult to determine the full extent of this practice without individually reviewing numerous contracts and accounting documents. An illustration of the probable significance of these "write off's" is indicated by the following table which was prepared on the basis of board records:

WATER RESOURCES BOARD
SELECTED EXAMPLES OF RECEIVABLES DUE UNDER
WATER USER CONTRACTS WHICH WERE WRITTEN OFF
OR CANCELLED AS UNCOLLECTIBLE

Project	Receivable Written Off Or Cancelled
Broadwater-Missouri	$ 668,168
Tongue River	1,157,448
Willow Creek	123,801
Ruby River	448,644
Rock Creek	466,466
North Fork - Smith River	59,632
Deadman's Basin	142,316
Columbus	2,805
Nevada Creek	239,337
Flint Creek	420,282
Upper Musselshell	689,437
Livingston Ditch	1,812
Ackley Lake	98,544
Total	$4,518,692

Prior to the 1971 legislative session, state agencies were without statutory authority to cancel, "write off," or otherwise dispose of uncollectible amounts. The 42nd Legislative Assembly enacted Chapter 268, Laws of 1971, which empowered the state controller to cancel or write off, under certain circumstances, those amounts which are determined to be uncollectible. Pursuant to this legislation, we believe the board should consult with the state controller to determine (1) what action should be taken, if any, to legally "write off" those amounts which the board deems uncollectible, and (2) what action should be taken in the future to "write off" other amounts which become uncollectible.

RECOMMENDATION

We recommend that the board consult with the state controller as to the procedures necessary to write off uncollectible amounts.

Advances to Water User Associations

One method used by the board to repair and renovate the projects is to advance money to the water user associations. The associations and the board execute repayment agreements, which require the associations to pay back the money advanced through annual installments.

The board does not obtain a repayment agreement for moneys advanced to associations until the final advance has been made. For example, in 1967, the board began advancing moneys to an association for project repairs. The following schedule shows the date and amount of advances made to the association.

Date	Amount
December 1967	$18,293
December 1968	8,839
June 1969	23,348
Miscellaneous Payments by the Board	3,187
Total	$53,667

In August 1967, the association signed an "Agreement to Contract" form in which the board agreed to advance $25,000. The association agreed to execute a repayment agreement for the amount advanced. As the above schedule illustrates, $53,667 was eventually advanced or paid by the board. The repayment agreement was not signed until May 1970 for the full $53,667 and was not recorded in the board's records until after June 30, 1970, the end of the fiscal year.

As of June 30, 1970, $5,225 of the $53,667 had been repaid, leaving an unrecorded balance of receivables for the project at June 30, 1970, of $48,442.

In order to establish adequate control and provide accurate reporting information, the receivable should have been recorded immediately upon the signing of a valid contract. If the repairs require a series of advances by the board to the associations, an agreement to contract form should be signed for each advance and, before making the final advance, a repayment agreement should be executed covering the entire transaction and recorded in the accounting records.

Recently, the board advanced another association $17,629. The board does not have a repayment agreement from the association for the amount advanced. We were advised that the association is reluctant to sign a

repayment agreement, and it is probable that the board will not be directly reimbursed for this advance. In this case, it is doubtful that the $17,629 will be recovered unless a repayment agreement is executed.

In our opinion, the board should not advance moneys unless a repayment agreement is executed or an "agreement to contract" is signed. Although water user associations exist in relation to projects constructed by the board, they are nonetheless separate entities enjoying incorporated status. Because of this, transactions between the board and the associations should be carried out in a business-like manner.

RECOMMENDATION

We recommend that the board:

1. *Obtain "agreements to contract" from associations for amounts advanced at the time of making each advance.*
2. *Make final advances only after a repayment agreement has been executed.*
3. *Record repayment agreements in the accounting records as of the date of their execution.*

Delinquent Accounts

As of December 1970, the individual water purchase contracts were delinquent for a total of approximately $24,000 on 22 projects. These contracts have been delinquent for at least one year or more. The board prepares a second billing for delinquent accounts and has in the past turned some accounts over to their attorney for collection. There are no specific written instructions detailing the collection procedures

which would assure adequate follow-up on all delinquent accounts. In our opinion, specific follow-up procedures should be written and implemented.

RECOMMENDATION

We recommend that the board prepare written instructions describing the procedures to be followed for the collection of delinquent accounts.

Interest on Delinquent Accounts

As mentioned in the preceding section, there was approximately $24,000 in delinquent payments on water purchase contracts as of December 1970. An additional $12,968 was delinquent on repayment agreements at the same date.

The board does not charge interest on delinquent accounts even though this is an accepted business practice. Delinquent accounts increase the costs to the board for administration, recording, and subsequent collection. We believe costs of this nature should be recovered from those accounts which cause the additional cost.

RECOMMENDATION

We recommend that the board consider charging interest on delinquent accounts.

BOND LIABILITY

As previously discussed, the revenue bonds originally issued for construction of the 17 water projects were repurchased by the state in 1951 and therefore do not represent a liability to the board. The only outstanding bond liability is for the Charlo project. A total of $42,000

of revenue bonds were issued for this project in 1965, of which $10,100 were redeemed as of June 30, 1970. The Charlo bonds are processed for payment through the State Treasurer's Office.

Even though the bonds on the 17 projects are owned by the state, the board still processes the outstanding bonds for payment as though the bonds were owned by outside parties. Each year, based on the amount of money accumulated in the trustee banks, the board identifies the number of coupons and bonds which can be redeemed, issues a check to the state treasurer, mutilates the bonds and coupons, and makes the necessary entries in the accounting records and bond registers.

We believe that these are unnecessary tasks and serve no useful purpose. In the Cash Control section of this report we have recommended that the water sales collections from these projects be deposited directly as revenue to the General Fund. In view of this recommendation, we believe all outstanding bonds can be cancelled except for those pertaining to the Charlo project.

RECOMMENDATION

We recommend that the board cancel the outstanding water revenue bonds and coupons presently owned by the state to eliminate the unnecessary administrative and recording procedures.

DEPOSIT OF MISCELLANEOUS INCOME

Section 89-116.1, R.C.M. 1947, states:

> "All sums received from the sale of water through water purchase contracts or otherwise from said seventeen (17) irrigation projects, except those funds which are specifically collected for the operation and maintenance of said projects; and all other income or other benefits arising from, out of, or in connection with the ownership of said projects from whatever source derived shall be deposited in the state general fund, ..." (Emphasis added.)

The board derives income from leasing land at some of the 17 projects but the receipts are deposited in the board's Earmarked Revenue Fund account. For example, the board leases land at the Rock Creek project to the Fish and Game Commission for $500 a year and has issued a coal mining lease at the Tongue River project for $400 a year. The income from these leases was deposited in the board's Earmarked Revenue Fund account even though these projects are two of the 17 projects referred to above. Income is also received from the leasing of cabin sites at the Tongue River project, a "bond" project, which is also deposited in the board's Earmarked Revenue Fund account.

This income cannot logically be construed to relate to the operation and maintenance because the fees charged are fixed and are not related to operation and maintenance expenses incurred. In this regard, moneys for operation and maintenance are derived through a separate fee charged the water users.

RECOMMENDATION

We recommend that the board deposit all miscellaneous income received from the operation of the 17 bond projects as revenue to the General Fund in accordance with Section 89-116.1, R.C.M. 1947.

UTILIZATION OF THE EARMARKED REVENUE FUND

Sections 89-401 and 89-402, R.C.M. 1947, established the board's earmarked account and enumerated the moneys to be deposited and the expenses to be paid from the account. According to the statutes, the account was established for a specific purpose; i.e., the planning, construction, and operation of projects for the purpose of obtaining

benefits from the utilization of water. It appears that the original intention of the earmarked account was to provide an account, where income directly related to the projects would be deposited and used to pay expenses directly relating to project operations.

The distinction between the present utilization of these revenues and the general fund appropriation is minimal. As mentioned earlier in this report, the income generated from the 17 bond-financed projects is eventually deposited in the General Fund as required by statute. The income received from other projects for the same purpose, the sale of water, is deposited in the Earmarked Revenue Fund. The expenses paid from the Earmarked Revenue Fund are in many instances the same types of expenses that are paid from general fund appropriations. We were advised that the only criteria, as to which fund to use, was the availability of money. Because a majority of the income deposited in the Earmarked Revenue Fund is received during the second half of the fiscal year, general fund moneys are used during the first half of the year to pay expenditures relating to the projects.

An illustration of the lack of correlation between project revenues and expenditures is the Daly Ditch project. During 1969-70 the board expended approximately $38,400 from the General Fund for the operation and maintenance of the project. During the same period the water users paid $52,800 as operation and maintenance charges, which was deposited in the Earmarked Revenue Fund, even though the original costs were underwritten by the General Fund. In our opinion, this income should have been deposited in the General Fund.

Recently, the board sold real property, equipment, supplies, and materials used in the maintenance of various projects for about $43,000,

which was deposited in the Earmarked Revenue Fund. An analysis of available records disclosed that a major portion of the equipment was purchased with general fund moneys. Since the General Fund initially financed the purchase of the equipment, we believe the proceeds from the sale of the equipment should have been deposited in the General Fund.

If the board's operations were financed directly from the General Fund, there would be administrative cost savings in both the board and the state controller's offices because the necessity to control, account, and report on the board's Earmarked Revenue Fund account would be eliminated.

RECOMMENDATION

We recommend that the board seek legislation to delete the statutes relating to its Earmarked Revenue Fund account, deposit to the General Fund project revenues and other revenues generated from the expenditure of general fund moneys, and finance board operations from the General Fund.

APPROPRIATIONS AND ENCUMBRANCES

Appropriation Control

As previously discussed in this report, the appropriation account balances per the board records and the controller's reports have not been reconciled since 1968. In addition, our review of the board's expenditure controls disclosed several other weaknesses. These weaknesses are illustrated by the following examples.

1. The 1969 appropriation act allocated $40,000 from the General Fund to the board for the "River Basin Commission." This money was designated to pay the board's expenses for participation in the Pacific Northwest River Basin Commission and the Missouri River Basin Commission. The cost of the board's participation in the Pacific Northwest River Basin Commission, $30,000, was paid from the general fund appropriation for operation and capital. The Missouri River Basin Commission was not created so there was no payment.

   As shown by Exhibit D, the board charged $12,300 during 1969-70 to the appropriation for the River Basin Commission. Of this amount, $10,000 was for part payment on the purchase of land and buildings and $500 was for attorney fees. These costs were not related to the River Basin Commission and should have been paid from other appropriations. Since all the costs involved were paid from the General Fund, it might be argued there is no adverse effect. However, recording and reporting of costs in this manner is inaccurate and misleading. In this instance, for example, the cost

relative to the River Basin Commission was in excess of $30,000 as opposed to the reported $12,300.

2. In the act appropriating moneys to the board for the 1969-70 fiscal year (Extraordinary Session House Bill No. 4), Section 4 includes the following provision:

> "(4) . . . Capital . . . does not include expenditures for . . . land unless specifically authorized."

The board's appropriation contained no provision for land purchases. During mid-1969, the board purchased a right-of-way on a reservoir site for $20,000 from its general fund appropriation for operation and capital. Based upon the above cited provision, the board did not have the spending authority to make the land purchase.

3. In 1967, the board received a $295,000 appropriation for planning a new dam on the Tongue River. The board contracted with a national engineering firm to perform the necessary engineering services to plan for the construction of the dam. The total costs incurred by the board were approximately $450,000. In 1969 the board received a supplemental appropriation for $100,000 to pay the balance due the contractor. The total appropriated amount, $395,000, was used to pay the contractor and an additional $54,800 was expended from the board's appropriation for operation and capital. The board therefore spent more than the appropriations granted by the legislature for the purpose of planning the Tongue River Dam by nearly 14%. In our opinion, obligations incurred by state agencies for projects which receive specific appropriations should be limited to the appropriated amounts.

RECOMMENDATION

We recommend that the board institute procedures to assure that expenditures are charged to the correct appropriation and to limit expenditures for a certain purpose to the amounts appropriated by the legislature.

Encumbering Purchase Orders

Appropriations to the board and other state agencies are provided for necessary and ordinary expenditures during the year for which the appropriations are made. The unexpended balances revert at the end of each fiscal year, except amounts encumbered by purchase orders.

Included in the board's outstanding purchase orders at June 30, 1970, were several designating water user associations as payees. These purchase orders described certain repairs which were to be made at the projects. The following schedule lists some of these outstanding encumbrances as of June 30, 1970, and the date the amounts were encumbered.

Payee	Date	Amount
Careless Creek Association	5/20/70	$12,000
Deadman's Basin	6/18/69	15,500
Tongue River Association	5/20/70	35,000
Yellowater Association	5/20/70	6,000

There were no contracts between the associations and the board to either repair the projects or for the associations to repay the amounts to be advanced. The issuance of a purchase order implies an obligation to some external organization for goods or services to be rendered. In this sense, the foregoing purchase orders were not valid. The purchase

order issued to Deadman's Basin for $15,500 on June 18, 1969, is an example. The work represented by this purchase order was not performed during 1969-70, and on May 20, 1970, the board encumbered $12,000 designating the Careless Creek Association as the payee to accomplish the same repair work.

The work was completed in August 1970, for $12,858, which was charged against the original purchase order. The second purchase order was canceled on March 29, 1971. Until this mistake was discovered, a large amount was unnecessarily encumbered for about ten months. The contractor who eventually repaired the project was not hired at the time the purchase orders were issued, and there were no agreements between the board and the association to perform the work or repay the money to be advanced.

In our opinion, these types of transactions are not valid encumbrances and do not represent ordinary and necessary expenditures for the year in which the appropriation was made.

RECOMMENDATION

We recommend that:

1. *The board request the issuance of purchase orders to encumber its appropriations only when a valid obligation exists between the board and the entity providing the goods or services.*
2. *The state controller consider requiring agencies to submit copies of signed contracts before fulfilling agency requests to issue purchase orders for goods or services not contracted for directly by the state purchasing division.*

Reversion of Encumbrances

The board encumbered $35,000 in May 1968, for repairs to the Tongue River project. The repair work was completed in March 1971, for $17,629. The remaining encumbered balance has not been liquidated. In March 1971, the board liquidated the remaining balances on a number of other encumbered purchase orders. Some of these amounts were encumbered in 1968-69 and the unneeded balances were outstanding for varying periods of time.

In order to free available moneys, the board should liquidate the remaining balances on purchase orders immediately upon completion of the purpose for which the amounts were originally encumbered.

RECOMMENDATION

We recommend that the board:

1. *Liquidate the remaining balance of the purchase order for the Tongue River project.*
2. *Establish procedures to immediately identify and liquidate unused encumbered balances.*

Erroneous Payment

In January 1970, the board paid in error an electric bill for $1,758. The bill was for electric power furnished a water project operated by the local association. The bill should have been paid by the association. The board has not sought reimbursement for the payment or arranged for a repayment agreement.

RECOMMENDATION

We recommend that the board collect the amount paid from the water user association.

Classification of Expenditures

We noted several instances where the board provided incorrect object code classifications for board expenditures. These incorrect codes affect the accuracy of the records and reports of the board and the state controller's office.

For example, in one case the board expended $1,229 for data processing services and recorded the expenditure as materials and supplies. This should have been charged to contracted services. In another instance the board purchased land and improvements for $20,000. The board made two $10,000 payments, one of which was charged to special fees and the other to capital equipment. The payments should have been allocated between the correct capital accounts for land and buildings, but the board has not established object code categories for land and buildings. This is also a contributing factor to the lack of control of fixed assets as discussed later in this report.

RECOMMENDATION

We recommend that the board establish object code classifications in conformance with the state controller's system for all types of expenditures and classify expenditures to the correct object codes.

Utilization of Non-General Fund Moneys

As shown by Exhibit D, the board reverted $24,828 from its appropriation from the Earmarked Revenue Fund as of June 30, 1970. Section 82-109, R.C.M. 1947, states that "It shall be the duty of the controller to apply expenditures against cash funds whenever possible before using the general fund appropriations."

The board utilizes its appropriation from the Earmarked Revenue Fund for the same purpose as its appropriation from the General Fund. Accordingly, in order to comply with the above statute, the board should apply expenditures against earmarked moneys before using the General Fund.

RECOMMENDATION

We recommend that the board utilize other available moneys before making expenditures from general fund appropriations.

Revenue Credited as Refunds to Expenditures

During the year the board received miscellaneous income as a result of its operations. The board recorded this income as refunds to expenditures. For example, the board received about $1,900 from cabin leases, oil, gas, and coal leases, grazing leases, and sales of publications, which were recorded as refunds to various expense accounts. This has the effect of understating the expenses and income totals. In our opinion, these types of income items should be classified and shown in the records and reports as revenue.

We noted one instance where the board received a $2,480 payment in September 1970, representing reimbursement for work performed during the 1968-69 fiscal year. The reimbursement was deposited as a refund to the board's 1969-70 general fund appropriation. Since the reimbursement was for expenditures from a prior year appropriation, the amount collected should have been deposited as a revenue to the General Fund.

RECOMMENDATION

We recommend that the board:

1. *Establish a miscellaneous or appropriate income account to record revenue items.*

2. *Consult with the state controller to develop criteria as to the classification of income as revenue or refunds.*

3. *Deposit reimbursements of prior year's expenditures as revenue to the General Fund.*

Purchasing

Centralization of the purchasing function primarily consists of assigning the responsibility for the purchasing function to a single office. The state has provided for a centralized purchasing function by designating the state purchasing agent as the purchasing agent for all state agencies. Centralized purchasing affords the state the opportunity to consolidate the agencies' common requirements to obtain lower prices through competitive bids and volume buying and to reduce administrative and overhead costs.

Two of the board's practices negate to a degree the advantages of centralized purchasing.

The state purchasing agent establishes buying schedules for a number of products. Scheduled buying allows the purchasing division to consolidate requisitions and solicit bids once or a few times during the year for the common requirements of the agencies. We identified several instances where the board submitted requisitions to the purchasing division at times other than the scheduled buying dates. These requisitions were not included in the scheduled awards and were processed separately. For example, the board submitted requisitions in July and August 1969 for flat printing. We were advised that these requisitions should have been included in the annual printing award in March 1969. By advance planning, the board should be able to anticipate its more significant printing requirements to conform with the schedule.

The board also submitted requisitions for purchase orders indicating that the products were already received or ordered. This practice also reduces the efficiency and effectiveness of central purchasing. It precludes the state purchasing agent from obtaining competitive bids and consolidating the board's and other agencies' requisitions. In addition, this practice is not consistent with the state purchasing statutes which provide the state purchasing agent the full and sole power and authority to contract and purchase or direct and supervise the purchase of all supplies. In accordance with this concept, the state purchasing agent must approve the requisitions charged against the appropriation under the control of the board. This is accomplished through the issuance of requisitions and purchase orders. In our opinion, an after-the-fact approval of requisitions and purchase orders does not comply with the intent of the statute.

RECOMMENDATION

We recommend that the board:

1. *Establish a system to identify and plan its purchasing requirements in order to comply with the buying schedules established by the state purchasing agent.*
2. *Submit requisitions for purchases through the state purchasing division before ordering the goods, in accordance with state purchasing regulations.*

Project Repairs Financed by the Board

As previously discussed, one method used by the board to repair and renovate the projects is to advance money to the water user associations.

Although the money advanced to the associations is state money, the use of the money is left almost entirely up to the associations. The associations engage contractors or individuals to perform the necessary repair work and pay the claims.

In all cases the state retains ownership and title to the projects but by making advances to the associations, the state loses control of the moneys. Normally, if state-owned facilities are to be renovated or repaired, the moneys would be held in the state treasury, contracts would be awarded on a bid basis, and the claims would be paid through the state claim/warrant process.

Since the repairs are made to projects which are state property with state moneys, we believe that the state should have a larger degree of control over the expenditures of those moneys. This could be accomplished by the state retaining possession of the money, awarding the contracts, and approving the payments against the contracts.

RECOMMENDATION

We recommend that when state moneys are used for repairing or renovating board projects, the board retain the moneys in the state treasury, request contract bids and awards through established procedures, and process claims for payment through established state procedures.

Cost Plus a Percentage of Cost Contracting

During the 1967 legislative session the board received a $295,000 appropriation for the planning of the Tongue River Dam. The amount was based on an estimate prepared in April 1967, by a national engineering

firm engaged by the board to provide engineering services. The estimate included the engineering costs for two alternate proposals--raising the height of the existing dam and constructing a new dam.

In May 1967, a month after the estimated cost was determined, the engineering firm and the board executed a contract whereby the firm was to perform the necessary field investigations to ascertain the feasibility of raising the existing structure and the feasibility of constructing a new dam downstream. The contract provided that the firm was to be reimbursed by the state for costs incurred plus a fee equal to 15% of the costs incurred. The board executed this cost-reimbursable type contract rather than a fixed-price contract because of the difficulty of estimating the cost of the engineering services. Cost-reimbursable contracts are valid and useful contracts when there are uncertainties or variables involved which make it impossible to estimate the cost of the services or products as is usually done under a fixed price arrangement. However, cost-reimbursable contracts have definite disadvantages. Such contracts impose a heavy administrative burden on both parties in that the contractor must maintain detailed documentation and accounting records, which identify and support the costs incurred on the specific contract. These costs should normally be verified before payment, thus imposing a detailed audit and review responsibility on the receiving party. The state bears a heavier financial risk in cost-reimbursable contracts than in any others because the contractor does not have the same incentive to hold down or minimize his costs. This is especially so where the contract provides for cost reimbursement plus a fee equal to a percentage of cost. In these cases, the higher the cost, the higher the fee received.

Recognizing these facts, the Federal Government enacted legislation (Armed Services Procurement Act of 1947) to prohibit these types of contracts. The legislation provides that "cost-plus-a-percentage-of-cost system of contracting may not be used" by federal agencies. Also recognizing that in some cases cost-reimbursable contracts but not cost-plus-a-percentage-of-cost contracts are necessary, the federal legislation limited the fees on cost reimbursable contracts by providing that:

> "The fee for performing a cost-plus-a-fixed-fee contract for experimental, developmental, or research work may not be more than 15 percent of the estimated cost of the contract, not including the fee. The fee for performing a cost-plus-a-fixed-fee contract for architectural or engineering services for a public work or utility plus the cost of those services to the contractor may not be more than 6 percent of the estimated cost of that work or project, not including fees. The fee for performing any other cost-plus-a-fixed-fee contract may not be more than 10 percent of the estimated cost of the contract, not including fee. Determinations under this subsection of the estimated costs of a contract or project shall be made by the head of the agency at the time the contract is made." (Underscoring added.)

Had there been similar state statutes, the above mentioned contract could not have been executed in its present form, and the amount of fee paid would have been reduced by $43,282, as shown below:

TONGUE RIVER FEASIBILITY STUDY CONTRACT
COMPARISON OF THE ACTUAL FEE PAID AND THE
POSSIBLE FEE UNDER A SIX PERCENT FEE LIMITATION

Actual Payments Under the Contract		
Total Payment by Board	$449,818	
Cost Amount	391,145	
Fee Amount		$58,673
Comparative Payment at Hypothetical 6% Limitation		
Initial Estimated Cost, excluding fee	256,522	
6% Fee Limitation	.06	
Hypothetical 6% Fee		15,391
Additional Fees Paid		$43,282

The foregoing table illustrates that had the board awarded the contract under criteria applicable to the federal agencies, over $43,000 could have been saved. In making this comparison, we are not inferring that the board should comply with the federal contracting requirement nor that these requirements are necessarily suitable and appropriate for the state. The comparison does illustrate, however, that it may be in the best interests of the state to establish fee limitations on cost-reimbursable contracts.

Section 82-1135, R.C.M. 1947, enacted in 1927, provides that:

> "Any contracts hereafter made by, on behalf of or for the state of Montana after the passage of this act which shall directly or indirectly recognize the cost plus system or principle shall be void and of no effect, and this act shall stand as a notice of the invalidity of any such contract."

While it appears that the contract executed by the board is in conflict with this statute and consequently may be invalid, we believe a much broader question exists. The possible interpretations of this statute raise an important question concerning its applicability, particularly in defining the phrase "cost plus." If this phrase is interpreted to mean cost plus a percentage of cost contracts, then the statute is similar to the federal law prohibiting such contracts and, in our opinion, adequately protects the interests of the state. In the event the phrase "cost plus" refers to all cost-reimbursable type contracts, then we believe the statute may be too restrictive and should be redefined. In any event, we believe that the state controller, in consultation with the attorney general, should clarify the statutes relating to cost plus contracting and that reasonable fee limits should be established for cost-reimbursable contracts.

The Architecture and Engineering Division of the State Department of Administration negotiates similar engineering contracts on an hourly rate basis, which includes all costs, including profit. The Highway Department awards similar contracts on a fixed-price, lump-sum basis, or on a cost-plus-fixed-fee basis. Both agencies usually establish contract ceiling prices, however, which cannot be exceeded without approval.

RECOMMENDATION

We recommend that the state controller consult with the attorney general to establish the intent of Section 82-1135, R.C.M. 1947, and prescribe reasonable fee limitations for future cost-reimbursable contracts entered into by state agencies.

PAYROLL

As of June 30, 1970, the board staff consisted of 72 employees. All employees are paid through the state's central payroll system. In July 1970, the board implemented a time and attendance reporting system which requires the employees to account for their time on a daily basis. The time and attendance reports are approved by the employees' immediate supervisors. In addition, the board established a personnel system which includes personnel files and job descriptions for its employees.

Although the new procedures represent a significant improvement in the board's personnel payroll system, we noted areas where additional improvements can be made.

Duplicate Records

The board maintains several sets of payroll records that show the same information in slightly different formats. The State Central Payroll

Division provides a monthly printout showing the basic payroll information such as gross pay, taxes withheld, etc. This report shows the information by pay period and year to date. This information is hand copied on the "Accumulated Payroll By Employee For The Month" forms, totaled, and re-copied on another record summarizing the data by employee for the calendar year. This latter record, "Water Conservation Board Payroll Record," is often not maintained on a current basis and in some cases the board was months behind in posting. In our opinion, the printouts provided by the Central Payroll Division supply adequate information and the "Accumulated Payroll By Employee For The Month" and "Water Conservation Board Payroll" records can be eliminated.

We also noted the board maintains duplicate leave records. The employees prepare biweekly "Time and Attendance Reports" which are approved by the supervisors and forwarded to the board's accounting section. These reports show the necessary information for vacation, sick, and other types of leave. The employees also submit requests for leave which are approved by the supervisors. These two reports provide the necessary information relative to the leave earned or taken by the employees. However, the vacation and sick leave data on the time and attendance reports is posted to the reverse side of the "Water Conservation Board Payroll Record." In addition, each division prepares reports for the director showing the leave taken by each employee. One division sent the reports on a biweekly basis, another on a monthly basis, and a third hasn't prepared the report since July 1970. Two division secretaries maintain detail leave records which were used to prepare these biweekly reports. Maintaining leave records at the division level takes time and results in an unnecessary duplication of data which is available in the accounting section. We

believe that reports prepared for management purposes should be based on the official time and attendance records maintained by the accounting section and the preparation of such reports is an appropriate function of the accounting section.

RECOMMENDATION

We recommend that the board eliminate maintenance of duplicate payroll records and reports.

Attorney Services

The board retains the services of a practicing attorney at a fee of $1,000 per month. The board does not maintain records documenting the effort, service, or performance of the attorney. In order to evaluate the benefits derived from such expenditures, the board should have documented information as to the service provided. We believe that a formal system of documenting and reporting the time and nature of service provided by attorneys and other consultants should be maintained by the board.

RECOMMENDATION

We recommend that the board establish a system of documenting the time and nature of the service provided by the board's attorney and other consultants.

Information Returns for Compensation Not Subject to Withholding

Section 84-4913, R.C.M. 1947, requires that employers provide the State Board of Equalization complete information concerning distributions made during the taxable year upon which withholding tax has not been deducted. This is normally done with a document known as a "Form 1099" which provides the Board of Equalization with corroboration of payments when auditing the individual tax returns. A similar information form is required to be filed with the Federal Internal Revenue Service. The board paid consulting and attorney fees and did not withhold taxes or file the required information returns for 1969 or 1970. The board should implement the necessary procedures to accumulate the data necessary to prepare the forms required by the state and federal governments.

Since a similar situation has been observed in our examinations of other agencies (University System and Library Commission), we believe that this may be a common problem among many agencies. Because of this and the fact that Form 1099's are one of the primary methods of assuring that all taxable income is reported, we believe the state controller should provide agencies with a reminder and guidance regarding the filing of Form 1099's. In addition, we also believe the state controller should explore the feasibility of routinely preparing Form 1099's through the use of automatic data processing in a manner similar to that now done with tax withholding forms (W-2's).

RECOMMENDATION

We recommend that:

1. *The board prepare information forms (Form 1099) for all compensation paid for services not subject to withholding for taxes.*
2. *The state controller:*
   a. *Provide state agencies with a reminder and guidance as to the necessity of filing Form 1099's for compensation paid which is not subject to withholding.*
   b. *Explore the feasibility of using automatic data processing to prepare Form 1099's.*

Vacation Allowed Prior to One Year of Continuous Employment

Section 59-1001, R.C.M. 1947, provides that an employee must be in continuous employment and service of the state for one year before being granted annual vacation leave.

Our review of the payroll records and reports disclosed several instances where employees received vacation leave prior to the completion of one year's continuous employment.

RECOMMENDATION

We recommend that the board implement the necessary procedures to assure compliance with the vacation statutes.

TRAVEL

The board incurred $83,589 in travel costs during 1969-70. In December 1970, the board established procedures to improve the board's internal control of travel. "Advance Travel Request Forms" were designed

to be prepared prior to making travel assignments, and these forms provide for approval by the appropriate supervisors. The accounting section initiated an improved program of claims review prior to submitting the documents for payment, and the supervisors indicate their approval by initialing the claims. However, we noted one area relating to travel where we believe additional improvements can be made. This pertains to the control of transportation requests.

Transportation Requests (TR's) issued by the Board of Examiners, are used by agency personnel to purchase tickets on common carriers. TR's are issued in books of 25 upon the request of the using agency. The Water Resources Board does not maintain adequate control of the TR books issued to their agency personnel. We were advised that there were about five books outstanding and controlled by individual employees. We examined the Board of Examiners' records as far back as August 1962, and identified 35 TR books which were issued to board personnel and are still outstanding, as follows:

Former Board Employees	7
Present Employees	8
Former Board Members	9
Present Board Members	4
Board Representatives	6
Board Attorney	1
Total	35

Since TR's can be signed by the individual to whom a book is issued and the state can consequently be obligated to pay the common carrier, we believe that it is necessary for the board to formally control the transportation request books outstanding and to assure that the books are turned in when the employees or board members terminate.

The board should review the necessity of issuing transportation request books to employees or board members who do not travel and use TR's on a more or less continual basis. In many instances the need for issuing the books was not apparent. For example, of the four books issued to board members, only 4 individual TR's were used during fiscal year 1970. In fact, one board member has only used 15 individual TR's since the book was issued in December 1962. The board attorney was issued a book in February 1968, and there were only six individual TR's used as of June 30, 1970. We believe it would be preferable to centrally control the books and issue the TR's on a need basis. This would provide adequate control and assure against misappropriation or loss of the TR's.

RECOMMENDATION

We recommend that the board:

1. *Establish formal control over the issuance of transportation request books and implement procedures to assure that the books are returned when the employee or board member terminates.*
2. *Limit the issuance of TR books to employees who travel on a more continual basis.*

GENERAL FIXED ASSETS

Exhibit E presents a statement of changes in fixed assets balances for the fiscal year ended June 30, 1970, as reported in the board's financial report. The account balances are generally inaccurate or incomplete. This is caused by the lack of a sound system to account for the fixed assets of the board.

In November 1970, the board took the first complete physical inventory of its equipment items since 1965. The items were tagged for identification but the inventory was not reconciled to the accounting records or previous physical inventories.

The board's fixed asset system currently includes control accounts for equipment, furniture, and library books maintained by organizational division in the general ledger. No accounts are maintained for lands or improvements. Acquisitions of capital equipment are recorded in the appropriation expenditure ledger, totaled at year-end, and recorded in the appropriate control accounts in the general ledger.

As shown by Exhibit E, the reported balances are the result of 1969-70 acquisitions added to the recorded balance at the beginning of the year. The present system does not provide adequate assurance that all deletions are recorded. Following are examples of transactions which demonstrate the inaccuracy of the board's fixed asset accounts due to not recording deletions:

1. The board assigned 12 automobiles to the Highway Commission's Motor Pool in October 1970. These 12 automobiles have not been deleted from the board's accounting records. The 1965 inventory report showed that these automobiles cost $23,875.
2. Capital equipment, land and buildings were sold subsequent to June 30, 1970, but have not been deleted from the accounting records. We identified over $73,000 in capital equipment and $10,059 in buildings and structures in the 1965 inventory report which were part of the items sold.

The board's system should provide for deleting fixed assets from the records at the time they are disposed of.

The land, buildings, and structures owned by the board at the project sites are not separately identified and recorded as a part of the accounting system and, as a result, the amount and extent of board assets are understated by an indeterminable amount. The board's engineering division has records which provide legal descriptions of the land owned. These records could serve as the basis for recording the assets in the accounting records.

At some projects the board leases land for cabin sites and grazing, and the income is used to support its operations. Without accurate records of ownership, location, utilization, etc., the board cannot determine on a systematic basis whether other lands can be leased or whether state-owned property is being properly utilized. For example, the engineering records indicate that the state owns over 20,000 acres of land in conjunction with the various projects and has easements and other use rights on other vast acreage. Our visits to selected project sites disclosed that as a general rule land owned and/or used by the state for project purposes is not fenced, marked by identifiable boundaries, nor marked as state property. In one case the property was being used by adjoining landowners for livestock grazing. Although this project is not operational in terms of a water reservoir, it encompasses over 700 acres of state-owned land. Insofar as we could determine, the state is receiving no compensation for the use of this land and no consideration has been given by the board to selling or leasing the land. As a consequence, the state is deriving no benefit from the ownership of this property. In addition, since it is state property, it is not on the county tax rolls and therefore provides no tax revenue as it would if it were privately owned.

Further indication that board land and buildings at the projects are not being adequately controlled is evident in the board correspondence files. For example, we noted that one individual was living in a house owned by the board and used 50 to 60 acres of land without paying rent for the property.

Subsidiary records should be established not only for the purpose of identifying, reporting, and controlling state assets, but also to provide meaningful information to management so that sound decisions can be made relative to the utilization of the assets.

On June 26, 1970, the state controller issued Management Memo No. 70-17 prescribing preliminary guidelines for the control of fixed assets. Implementation of the guidelines set forth in the memorandum, together with the following recommendations, should establish control of the board's fixed assets pending the development of comprehensive directives for property management by the state controller.

RECOMMENDATION

We recommend that the board:

1. *Revise its chart of accounts to include fixed asset account classifications for land, buildings, and improvements.*
2. *Identify all land owned by the board, and buildings and improvements located thereon, assign a value to each (cost, where available), record these assets in the general ledger control accounts, and establish a subsidiary ledger to account for each property item.*
3. *Assign a value (cost, where available) to each equipment item on hand at the time of the November 1970 inventory and items acquired since that time.*

4. *Adjust the general ledger equipment accounts to agree with the physical inventory conducted in November 1970, and record additions and deletions since the inventory was taken.*
5. *Establish a subsidiary ledger in which each equipment item is individually accounted for.*
6. *Record future additions and deletions on the basis of cost at the time of the transaction and adjust the accounts accordingly.*
7. *Implement the other directives enumerated in Management Memo No. 70-17.*

FINAL COMMENTS

We have reviewed the comments and recommendations contained in this report with the director of the Department of Water Resources and his chief administrative assistants. They have informed us that since the completion of our audit they have implemented several of our recommendations and are in the process of implementing others. We wish to express our appreciation to the director and his staff for their cooperation and assistance.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett
Legislative Auditor

September 1, 1971

EXHIBIT A

WATER RESOURCES BOARD
ALL FUNDS
BALANCE SHEET
June 30, 1970

ASSETS	General Fund	Earmarked Revenue Fund	Federal and Private Revenue Fund	Agency Fund	General Fixed Assets	Non-Treasury Account
Cash in State Treasury	$ --	$55,620	$50,527	$560	$ --	$ --
Cash in Bank	--	--	--	--	--	3,857
Appropriation	290,011	--	--	--	--	--
Project Expenditures Recoverable from Water User Associations:						
Construction	5,255,799	--	--	--	--	--
Operation and Maintenance	1,139,935	--	--	--	--	--
Fixed Assets:						
Machinery, Appliances & Autos	--	--	--	--	332,182	--
Hand Tools & Petty Equipment	--	--	--	--	8,080	--
Furniture & Fixtures	--	--	--	--	58,091	--
Library & Reference Books	--	--	--	--	68,274	--
Scientific Apparatus & Engineering Equipment	--	--	--	--	15,727	--
Buildings & Attached Fixtures	--	--	--	--	10,060	--
Shop Machinery	--	--	--	--	1,099	--
Inventory Stock Pile	--	--	--	--	21,862	--
Gaging Stations, etc.	--	--	--	--	7,561	--
Total Assets	$6,685,745	$55,620	$50,527	$560	$522,936	$3,857
RESERVES AND FUND BALANCE						
Reserve for Encumbrances	$ 40,011	$55,444	$40,246	$--	$ --	$ --
Reserve for Recoverable Project Expenditures	6,395,734	--	--	--	--	--
Reserve for Investment in Fixed Assets	--	--	--	--	522,936	--
Fund Balance	250,000	176	10,281	560	--	3,857
Total Reserves and Fund Balance	$6,685,745	$55,620	$50,527	$560	$522,936	$3,857

EXHIBIT B

WATER RESOURCES BOARD
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 1970

	General Fund	Earmarked Revenue Fund	Federal and Private Revenue Fund	Agency Fund	Non-Treasury Account
Fund Balance, July 1, 1969	$ --	$ 52,251	$ 26,911	$460	$ 3,934
Add:					
Revenue (Exhibit C)	--	137,597	53,200	100	136,883
Transfer from Non-Treasury Account	135,990	--	--	--	--
1969-70 Appropriations	1,106,392	--	--	--	--
Reserve for Encumbrances, July 1, 1969	42,616	15,799	27,351	--	--
Total	1,284,998	205,647	107,462	560	140,817
Deduct:					
Appropriation Expenditures (Exhibit D)	767,438	150,027	56,935	--	--
Other Expenditures	--	--	--	--	970
Transfer to General Fund	--	--	--	--	135,990
Reserve for Encumbrances, June 30, 1970	40,011	55,444	40,246	--	--
Appropriation Reversions	91,559	--	--	--	--
Revenue Deposited to General Fund	135,990	--	--	--	--
Fund Balance, June 30, 1970	$ 250,000	$ 176	$ 10,281	$560	$ 3,857

EXHIBIT C

WATER RESOURCES BOARD
ALL FUNDS
STATEMENT OF REVENUE
Fiscal Year Ended June 30, 1970

	Earmarked Revenue Fund	Federal and Private Revenue Fund	Agency Fund	Non-Treasury Account
Sales of Water - Bond Projects	$ --	$ --	$--	$136,883
Sales of Water and Proceeds from Repayment Agreements	135,820	--	--	--
Federal Grant for Planning	--	53,200	--	--
Weather Modification Permits	--	--	100	--
Interest Income	1,777	--	--	--
Total	$137,597	$53,200	$100	$136,883

EXHIBIT D

WATER RESOURCES BOARD
ALL FUNDS
STATEMENT OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH APPROPRIATIONS
Fiscal Year Ended June 30, 1970

	Reserve for Encumbrances July 1, 1969	Appropriations	Total Available	Expenditures	Encumbrances	Reversions	Balance
General Fund							
Personal Services	$ --	$ 494,292	$ 494,292	$481,489	$ --	$12,803	$ --
Operation and Capital	20,806	110,100	130,906	80,605	27,815	22,486	--
Ground Water	3,118	15,000	18,118	10,778	127	7,213	--
River Basins Commission	--	40,000	40,000	12,317	--	27,683	--
Water Resources Study	18,079	95,000	113,079	87,189	8,351	17,539	--
Statewide Comprehensive Water Plan	613	77,000	77,613	70,060	3,718	3,835	--
Sidney Water Users Project	--	250,000	250,000	--	--	--	250,000
Computer Water Planning Model	--	25,000	25,000	25,000	--	--	--
Total	$42,616	$1,106,392	$1,149,008	$767,438	$40,011	$91,559	$250,000
Earmarked Revenue Fund							
Operation and Capital	$15,799	$ 214,500	$ 230,299	$150,027	$55,444	$24,828	$ --
Federal and Private Revenue Fund							
Field Program and Comprehensive Water Plan Program	$27,351	$ 98,000	$ 125,351	$ 56,935	$40,246	$28,170	$ --

EXHIBIT E

WATER RESOURCES BOARD
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
Fiscal Year Ended June 30, 1970

	Balance July 1, 1969	Additions	Deletions	Balance June 30, 1970
Machinery, Appliances, and Autos	$320,761	$11,421	$ --	$332,182
Hand Tools and Petty Equipment	6,087	1,993	--	8,080
Furniture and Fixtures	38,136	19,955	--	58,091
Library and Reference Books	67,823	451	--	68,274
Scientific Apparatus and Engineering Equipment	15,727	--	--	15,727
Buildings and Attached Fixtures	10,060	--	--	10,060
Shop Machinery	1,099	--	--	1,099
Inventory Stock Pile	21,862	--	--	21,862
Gaging Stations, etc.	5,399	2,162	--	7,561
Total	$486,954	$35,982	$ --	$522,936

WATER RESOURCES BOARD
AMOUNT OF UNRECOVERABLE CONSTRUCTION COSTS
ON ALL PROJECTS
As of June 30, 1970*

Project	Total Construction Cost	Total State Funds Invested *	Revenue Received To 6/30/70	Revenue Receivable On 6/30/70	Revenue Received and To Be Received	State Investment Over Recovered *	State Investment Will Not Be Recovered
BONDED PROJECTS							
1. Broadwater-Missouri	$ 1,186,449	$ 412,135	$ 508,214	$ 135,585	$ 643,799	$ 231,664	$ --
2. Tongue River	1,524,475	521,192	421,457	427,746	849,203	328,011	--
3. Willow Creek	329,068	142,387	87,987	24,746	112,733	--	29,654
4. Rock Creek	888,737	355,298	292,349	301,160	593,509	238,211	--
5. Ruby River	768,051	249,997	239,987	79,803	319,790	69,793	--
6. North Fork Smith River	310,415	79,490	169,645	11,835	181,480	101,990	--
7. Deadman's Basin	1,292,571	466,966	226,765	230,025	456,790	--	10,176
8. Columbua	134,353	82,594	44,225	3,728	47,953	--	34,641
9. Nevada Creek	445,594	200,456	110,975	65,572	176,547	--	23,909
10. Sidney	315,935	172,971	92,114	39,857	131,971	--	41,000
11. Flint Creek	916,672	486,478	223,918	108,486	332,404	--	154,074
12. Upper Musselshell	1,034,737	411,861	256,680	130,468	387,148	--	24,713
13. Park Branch	280,903	168,011	128,907	57,570	186,477	18,466	--
14. Livingston Ditch	94,251	57,321	39,793	1,471	41,264	--	16,057
15. West Fork Bitterroot	991,270	302,441	132,707	27,300	160,007	--	142,434
16. Ackley Lake	174,410	85,462	36,455	3,156	39,611	--	45,851
17. Middle Creek	709,552	315,377	255,591	178,676	434,267	118,890	--
TOTAL - BONDED PROJECTS	$11,397,443	$4,510,437	$3,267,769	$1,827,184	$5,094,953	$1,107,025	$522,509

* See notes on last page of this Appendix

WATER RESOURCES BOARD
AMOUNT OF UNRECOVERABLE COSTS
ON ALL PROJECTS
As of June 30, 1970

Project	Total Construction Cost	Total State Funds Invested *	Revenue Received To 6/30/70	Revenue Receivable On 6/30/70	Revenue Received and To Be Received	State Investment Over Recovered *	State Investment Will Not Be Recovered
OTHER ACTIVE PROJECTS							
1. Nilan	$ 409,568	$ 409,568	$ 57,133	$ 124,386	$ 181,519	$ --	$ 228,049
2. Hysham	545,020	545,020	131,946	308,801	440,747	—	104,273
3. Bighorn Tullock	57,533	37,533	38,614	1,659	40,273	2,740	—
4. Yellowater	102,302	27,302	33,950	22,350	56,300	28,998	--
5. Red Butte	78,469	14,920	3,000	5,200	8,200	—	6,720
6. Fred Burr	117,839	103,939	25,417	39,912	65,329	—	38,610
7. Lewistown Ditch	69,356	17,074	12,258	4,354	16,612	--	462
8. South Side Canal	41,328	41,328	9,390	23,400	32,790	--	8,538
9. Vigilante	366,389	366,389	91,035	137,108	228,143	--	138,246
10. West Bench	117,740	117,740	57,476	49,731	107,207	--	10,533
11. North Side Canal - Nevada Creek	120,816	120,816	1,775	4,746	6,521	--	114,295
12. Delphia-Melstone Canals	1,028,506	1,028,506	63,809	195,594	259,403	—	769,103
13. Petrolia	492,472	492,472	78,851	220,768	299,619	—	192,853
14. Cottonwood	126,567	126,567	70,720	53,908	124,628	--	1,939
15. Frenchman	491,386	319,653	59,237	119,048	178,285	--	141,368
16. Florence	161,596	161,596	6,008	21,727	27,735	--	133,861
17. Paradise	351,033	351,033	61,635	251,595	313,230	—	37,803
18. Charlo	92,674	20,447	35,078	71,650	106,728	86,281	--
TOTAL - OTHER ACTIVE PROJECTS	$4,770,597	$4,301,903	$837,332	$1,655,937	$2,493,269	$118,019	$1,926,653

* See notes on last page of this Appendix

WATER RESOURCES BOARD
AMOUNT OF UNRECOVERABLE COSTS
ON ALL PROJECTS

Project	Total Construction Cost	Total State Funds Invested*	Revenue Received To 6/30/70	Revenue Receivable On 6/30/70	Revenue Received and To Be Received	State Investment Over Recovered*	State Investment Will Not Be Recovered
INACTIVE/OPERATIONAL PROJECTS							
1. Valentine	$ 86,679	$ 28,478	$ 336	$ --	$ 336	$ --	$ 28,142
2. Winnett	196,176	65,176	6,688	--	6,688	--	58,488
3. Green Mountain	58,233	26,216	2,368	--	2,368	--	23,848
4. Hotchkiss	25,880	2,739	--	--	--	--	2,739
5. Big Dry	315,267	161,280	449	--	449	--	160,831
6. Theboe Lake	14,099	9,099	8,165	--	8,165	--	934
7. Cataract	196,958	196,958	--	--	--	--	196,958
TOTAL INACTIVE/ OPERATIONAL PROJECTS	$ 893,292	$ 489,946	$ 18,006	$ --	$ 18,006	$ --	$ 471,940
138 Other Inactive Projects	$ 2,383,282	$ 254,522	$ 164,156	$ --	$ 164,156	$ --	$ 90,366
RECAP OF ALL PROJECTS							
17 Bonded Projects	$11,397,443	$4,510,437	$3,267,769	$1,827,184	$5,094,953	$1,107,025	$ 522,509
18 Other Active Projects	4,770,597	4,301,903	837,332	1,655,937	2,493,269	118,019	1,926,653
7 Inactive/Operational Projects	893,292	489,946	18,006	—	18,006	--	471,940
138 Other Inactive Projects	2,383,282	254,522	164,156	--	164,156	--	90,366
180 TOTAL - ALL PROJECTS	$19,444,614	$9,556,808	$4,287,263	$3,483,121	$7,770,384	$1,225,044	$3,011,468

Note: (a) Schedule does not include Daly Ditch project, which was assumed by the board from private enterprise at no cost.
(b) State investment appears to be over-recovered primarily because of manner in which costs were recorded. See report narrative for further explanation.
(c) Total state investment of $9,556,808 includes 1951 expenditure of $1,534,882 to purchase outstanding bonds held by the Federal Government.

Source: All data extracted from board records and reports. Construction costs and state investment include all costs incurred prior to July 1, 1960. Costs subsequent to July 1, 1960 are not shown but rather are classified as operation and maintenance cost.

WATER RESOURCES BOARD
STATUS OF PROJECT OPERATION AND MAINTENANCE EXPENSES
INCURRED BY THE STATE
July 1, 1960 Through June 30, 1970*

Projects	OPERATION AND MAINTENANCE EXPENSES INCURRED BY STATE										Total O & M Expenses*	Revenue Received To 6/30/70	Revenue Receivable On 6/30/70	Revenue Received and To Be Received	State Expenses Over Recovered*	State Expenses Will Not Be Recovered
	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970						
BONDED PROJECTS																
1. Broadwater-Missouri	$ 1,478	$ 1,793	$ 19,141	$ 1,371	$ 1,334	$ 2,360	$ 2,170	$ 31,444	$ 6,416	$ 1,712	$ 69,217	$ 28,857	$ 20,606	$ 49,464	$ -0-	$ 19,753
2. Tongue River	2,766	20,007	3,170	9,002	13,709	101,373	22,384	7,167	2,001	900	182,479	4,764	-0-	4,764	-0-	177,715
3. Willow Creek	2	6	2	2	3,456	874	663	2	2	200	5,209	-0-	-0-	-0-	-0-	5,209
4. Rock Creek	3,973	612	1,814	1,950	255	1,119	582	64	2,529	1,526	14,426	-0-	-0-	-0-	-0-	14,426
5. Ruby River	2,231	785	2,410	722	891	2,629	512	127	182	1	10,490	2,219	-0-	2,219	-0-	8,271
6. North Fork Smith River	4	22	1	76	1,098	571	289	893	79	1	3,034	-0-	-0-	-0-	-0-	3,034
7. Deadman's Basin	20,816	3,964	3,712	13,995	7,468	78	17,498	2,670	436	1,885	72,522	23,706	5,265	28,971	-0-	43,551
8. Columbus	4,111	874	1,580	834	1,042	1,144	403	709	2,309	2,106	15,112	3,737	-0-	3,737	-0-	11,375
9. Nevada Creek	6,484	6,131	2,807	14,706	100	2,221	9,737	2,028	7,530	85	51,829	7,241	1,810	9,051	-0-	42,778
10. Sidney	13,968	326	15,263	8,938	286	447	9,890	11,171	2,238	5	62,532	12,350	10,650	23,000	-0-	39,532
11. Flint Creek	23,313	1,130	1,832	2,894	1,368	449	893	60	115	2	32,056	9,240	2,310	11,550	-0-	20,506
12. Upper Musselshell	24,405	14,335	23,017	8,680	2,633	48,272	2,114	17,773	302	1,275	142,806	30,170	-0-	30,170	-0-	112,636
13. Park Branch	428	4,801	911	2,246	7,798	2	216	200	32	203	16,839	19,399	-0-	19,399	2,560	-0-
14. Livingston Ditch	3,923	289	382	2,874	3,563	497	202	5,933	20	86	17,769	28,351	19	28,369	10,600	-0-
15. West Fork Bitterroot	168	275	1,262	32	212	84	859	3,052	48	16	6,008	4,500	5,500	10,000	3,992	-0-
16. Ackley Lake	5	8,197	1,025	579	7,386	2,262	367	2,200	61	6,626	28,708	6,768	8,772	15,540	-0-	13,168
17. Middle Creek	364	935	79	9	52	1	902	471	1	1	2,815	-0-	-0-	-0-	-0-	2,815
TOTAL - BONDED PROJECTS	$108,439	$ 64,482	$ 78,408	$ 68,912	$ 52,651	$164,383	$ 69,681	$ 85,964	$ 24,301	$ 16,622	$ 733,851	$181,302	$ 54,932	$236,234	$ 17,152	$514,769

* See notes on last page of this Appendix

WATER RESOURCES BOARD
STATUS OP PROJECT OPERATION AND MAINTENANCE EXPENSES
INCURREO 8Y THE STATE
July 1, 1960 Through June 30, 1970*

Projects	OPERATION AND MAINTENANCE EXPENSES INCURRED BY STATE 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total O & M Expenses*	Revenue Received To 6/30/70	Revenue Receivable On 6/30/70	Revenue Received and To Be Received	State Expenses Over Recovered *	State Expenses Will Not Be Recovered
OTHER ACTIVE PROJECTS																
1. Nilan	$ 261	$ 1,073	$ 1,383	$ 504	$ 2,362	$ 180	$ 461	$ 3,102	$ 57	$ 2	$ 9,385	$ -0-	$ -0-	$ -0-	$ -0-	$ 9,385
2. Hysham	10,753	816	612	1,293	677	1,381	45,975	1,023	6,416	4	68,950	16,922	43,280	60,202	-0-	8,748
3. Bighorn Tullock	3	-0-	1	-0-	1	-0-	1	1	-0-	-0-	7	-0-	-0-	-0-	-0-	7
4. Yellowater	2	-0-	1	1	65	1	1	2	1	203	277	-0-	-0-	-0-	-0-	277
5. Red Butte	-0-	-0-	-0-	-0-	24	1	1	1	-0-	-0-	27	-0-	-0-	-0-	-0-	27
6. Charlo	99	-0-	193	612	2,059	760	-0-	-0-	-0-	-0-	3,723	-0-	-0-	-0-	-0-	3,723
7. Fred Burr	773	120	1,050	205	97	205	157	181	157	122	3,067	-0-	-0-	-0-	-0-	3,067
8. Lewistown Ditch	5	7	7	6	5	5	5	5	1	1	47	-0-	-0-	-0-	-0-	47
9. South Side Canal	1,626	934	18,472	8	1,032	3	-0-	-0-	4	-0-	22,079	6,457	4,129	10,586	-0-	11,493
10. Vigilante	5,963	65	369	430	192	25	-0-	-0-	-0-	84	7,128	3,403	-0-	3,403	-0-	3,725
11. West Beach	212	24	96	427	192	-0-	-0-	4,000	-0-	139	5,090	3,000	1,000	4,000	-0-	1,090
12. Nevada Creek	9,638	2,605	950	-0-	-0-	873	-0-	-0-	-0-	22	14,088	-0-	-0-	-0-	-0-	14,088
13. Musselshell Canal	12,795	18,702	41,563	25,152	33,485	16,177	7,221	1,759	1,917	270	159,041	4,000	7,500	11,500	-0-	147,541
14. Petrolia	5,111	89	8,780	3	9,043	38	925	24,694	47,020	125	95,818	13,918	49,147	63,065	-0-	32,753
15. Cottonwood	4	-0-	1	31	49	-0-	-0-	1	1	-0-	87	-0-	-0-	-0-	-0-	87
16. Frenchman	48	-0-	1	1	335	1	72	328	-0-	2	788	-0-	-0-	-0-	-0-	788
17. Florence	3,703	8,107	652	3,897	9,112	-0-	16	3,905	-0-	255	29,647	1,200	1,925	3,125	-0-	26,522
18. Paradise	205	362	666	312	3,800	3	270	234	47	1	5,900	2,449	-0-	2,449	-0-	3,451
TOTAL - OTHER ACTIVE PROJECTS	$ 51,201	$ 32,904	$ 74,797	$ 32,882	$ 62,530	$ 19,653	$ 55,105	$ 39,226	$ 55,621	$ 1,230	$ 425,149	$ 51,349	$106,981	$158,330	$ -0-	$266,819

* See notes on last page of this Appendix

WATER RESOURCES BOARD
STATUS OF PROJECT OPERATION AND MAINTENANCE EXPENSES
INCURRED BY THE STATE
July 1, 1960 Through June 30, 1970*

Projects	OPERATION AND MAINTENANCE EXPENSES INCURRED BY STATE 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total O & M Expenses	Revenue Received To 6/30/70	Revenue Receivable On 6/30/70	Revenue Received and To Be Received	State Expenses Over Recovered*	State Expenses Will Not Be Recovered
DALY DITCH PROJECT	$ 78,183	$ 34,690	$ 38,165	$ 30,380	$ 33,874	$ 41,091	$ 30,068	$ 32,571	$ 33,056	$ 38,464	$ 410,542	$494,956	$ -0-	$494,956	$ 84,415	$ -0-
INACTIVE/OPERATIONAL PROJECTS																
1. Valentine	$ 257	$ 40	$ 406	$ 82	$ 294	$ 194	$ 3	$ 1	$ 1	$ 1	$ 1,279	$ -0-	$ -0-	$ -0-	$ -0-	$ 1,279
2. Winnett	69	-0-	-0-	-0-	55	1	1	1	-0-	711	838	-0-	-0-	-0-	-0-	838
3. Green Mountain	2	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2	-0-	-0-	-0-	-0-	2
4. Natchkiss	1,423	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,423	-0-	-0-	-0-	-0-	1,425
5. Big Dry	-0-	13	13	13	18	13	14	14	14	-0-	112	-0-	-0-	-0-	-0-	112
6. Thebo Lake	-0-	-0-	-0-	-0-	65	-0-	-0-	-0-	-0-	-0-	65	-0-	-0-	-0-	-0-	65
7. Cataract	31,121	5,931	1,300	5,128	6,297	221	2	2	-0-	2	50,004	-0-	-0-	-0-	-0-	30,004
TOTAL - INACTIVE/OPERATIONAL PROJECTS	$ 32,874	$ 5,984	$ 1,719	$ 5,223	$ 6,729	$ 429	$ 20	$ 18	$ 15	$ 714	$ 53,725	$ -0-	$ -0-	$ -0-	$ -0-	$ 53,725
RECAP OF ALL PROJECTS																
17 BONDED PROJECTS	$108,439	$ 64,482	$ 78,408	$ 68,912	$ 52,651	$164,383	$ 69,681	$ 85,964	$ 24,301	$ 16,630	$ 733,851	$181,302	$ 54,932	$236,234	$ 17,152	$514,769
18 OTHER ACTIVE PROJECTS	51,201	32,904	74,797	32,882	62,330	19,633	33,103	39,226	33,621	1,230	423,149	51,349	106,981	158,330	-0-	266,819
1 DALY DITCH PROJECT	78,183	34,690	38,165	30,380	33,874	41,091	30,068	32,571	33,056	38,464	410,542	494,956	-0-	494,956	84,414	-0-
7 INACTIVE/OPERATIONAL PROJECTS	32,874	5,984	1,719	5,223	6,729	429	20	18	15	714	53,725	-0-	-0-	-0-	-0-	53,725
43 TOTAL	$270,697	$138,060	$193,089	$157,397	$155,784	$225,356	$134,874	$157,779	$112,993	$ 57,023	$1,623,267	$727,607	$161,913	$889,320	$101,366	$835,313

Source: All data extracted from board records and reports. Schedule reflects only O & M expenses incurred by the state for the 10-year period, 7/1/60 through 6/30/70. O & M expenses prior to 1960 are included as costs of construction on Appendix I.

Note: (a) Schedule does not include expenses of $159,239 incurred by board for 42 surveys and investigations for potential projects.
(b) State expenses appear to be over-recovered in some instances because of the manner in which expenses were recorded. See report narrative for further explanation.